Essays in Intangible Corporate Assets

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Zusammenfassung

In einer zunehmend vernetzten Welt befinden sich Unternehmen in einem komplexen Beziehungsgeflecht aus verschiedenen Akteuren, in dem Firmen- und Branchengrenzen zu verschwinden beginnen. Dies stellt eine Herausforderung für die Existenz traditioneller Geschäftsmodelle dar, da Firmen sich mit Konkurrenz aus allen Richtungen auseinander setzen müssen. In einem solchen Geschäftsumfeld werden immaterielle Vermögenswerte zunehmend als Grundlage für Wettbewerbsvorteile angesehen. Die Dissertation untersucht den materiellen Nutzen immaterieller Vermögenswerte und konzentriert sich dabei insbesondere auf die Unternehmensreputation und deren Einflussfaktoren. Wir verwenden als Theorie den Ressourcen-basierten Ansatz (Resource-based View, RBV) des Unternehmens und leiten unsere Hypothesen aus der vorhandenen Literatur ab, insbesondere in den Bereichen Reputation, Führung, Stakeholder-, Legitimitäts- und Signaling-Theorie. Bei der Durchführung der quantitativen Analyse verwenden wir Strukturgleichungsmodelle. Die Analysen werden in vier Kapiteln vorgestellt. Die ersten drei Kapitel konzentrieren sich auf die Reputationswahrnehmung in Deutschland basierend auf mehreren Umfragen des Manager Magazins. Das vierte Kapitel beinhaltet die Analyse der Nachhaltigkeit von chinesischen Unternehmen als wichtigstem Treiber der Unternehmensreputation. Der chinesische Datensatz basiert auf einer Zeitreihe, die die Qualität der Nachhaltigkeitsberichte der Unternehmen abbildet. Die Analyse erlaubt insbesondere die Untersuchung des Zusammenhangs der Qualität der Nachhaltigkeit und der finanziellen Leistung der chinesischen Unternehmen unter Verwendung des „Gold Bee Corporate Responsibility Assessment System".

Die gewonnenen Ergebnisse sind neu und bemerkenswert und leisten einen wichtigen Beitrag zur Reputations- und Nachhaltigkeitsliteratur. Aufgrund der einzigartigen Datensätze gelingt es die Bedeutung immaterieller Vermögenswerte als nachhaltigen Wettbewerbsvorteil von Unternehmen quantitativ zu belegen. Auch aus der Perspektive von Stakeholder-, Signaling- und Legitimitätstheorien bereichert die Dissertation die zunehmend wichtiger werdende Forschung zur CEO- und Unternehmensreputation im Allgemeinen und zur Interdependenz der CEO- und Unternehmensreputation im Besonderen.

Darüberhinaus haben die Forschungsergebnisse Auswirkungen auf die Theorie des Resource-based View des Unternehmens, indem wir zeigen, dass die Reputation von CEOs neben der

Unternehmensreputation ein wichtiger immaterieller Vermögenswert ist und somit ein integraler Bestandteil zukünftiger Reputationsstudien sein sollte. Weiterhin zeigen wir, dass die Kapitalrentabilität und der Marktwert des Unternehmens sowohl durch eine momentan hohe als auch durch zurückliegend hohe Reputation positiv beeinflusst wird. Zusätzlich liefern wir einen Beleg dafür, dass eine gute CEO-Reputation sich positiv auf die finanzielle Leistung und die Steigerung des Marktwerts auswirkt. Dieses Ergebnis unterstützt auch die Upper-Echelons-Theorie. Außerdem bereichern wir die Signaling-Literatur, indem wir demonstrieren, wie Signalisierungsprozesse in einem Reputationskontext funktionieren könnten. Wir liefern empirische Ergebnisse, die darlegen, dass eine gute CEO-Reputation sowohl für Stakeholder als auch für Marktteilnehmer als Signal für hohe Kompetenz wahrgenommen wird. Nicht zuletzt illustrieren wir, dass das CSR-Reporting von Anfang an das Potenzial besitzt, die finanzielle Unternehmensleistung selbst in einem sich entwickelnden Land wie China positiv zu beeinflussen.

Die Implikationen dieser Dissertation lassen darauf schließen, dass es einen Business Case für ein aktives Reputationsmanagement sowohl auf Unternehmensebene als auch auf individueller Ebene für Führungskräfte, vornehmlich für den CEO, gibt. Weiterhin ist eine hohe Reputation ein nachhaltiger Wettbewerbsvorteil, da sie die Wettbewerbsposition des Unternehmens gegenüber den Wettbewerbern stärkt und potentiell neuen Wettbewerbern den Markteintritt erschwert oder sie davon abhält. In ähnlicher Weise kann eine hohe Unternehmensreputation und/oder CEO-Reputation als Instrument der Risikoreduzierung in Krisenzeiten genutzt werden, um beispielsweise negative Nachrichten abzuschwächen oder die Perzeptionen der Stakeholder zu verbessern.

Bemerkenswert ist zudem das Ergebnis, dass Stakeholder beziehungsorientierten Fähigkeiten von Führungskräften gegenüber aufgabenorientierten den Vorzug geben. Daher schlagen wir vor, dass Unternehmen in Führungsprogramme investieren, die sich stärker auf beziehungsorientierte Führungsfähigkeiten konzentrieren, so dass CEOs in die Lage versetzt werden, die Werte und Visionen ihrer Unternehmen glaubwürdiger zu vermitteln, sich effektiv für die Gemeinschaften um sie herum zu engagieren, als Vorbilder zu fungieren und folglich eine Quelle der Inspiration und Motivation für ihre Mitarbeiter zu werden, indem sie ausgezeichnete Teamplayer-Fähigkeiten unter Beweis stellen.

Aus der Studie lassen sich Implikationen des Managements für die Berichterstattung gegenüber den Stakeholdern ableiten. Unbestreitbar erleben wir einen Wandel auf den

Märkten, auf denen nicht-finanzielle Kennzahlen, sogenannte weiche Faktoren, von Tag zu Tag mehr an Relevanz gewinnen. In dem Maße, in dem verschiedene Interessengruppen sich immer lauter zu sozialen und ökologischen Fragen äußern und Investoren immer mehr nicht-finanzielle Kennzahlen, bspw. auf der Basis von ESG-Faktoren, in ihre Investitionsentscheidungen integrieren, müssen Manager darauf reagieren und sich mit den sich ständig ändernden Anforderungen mehrerer Interessengruppen auseinandersetzen. Unsere Ergebnisse zeigen, dass die ausschließliche Einhaltung von Regeln und Regulierungen nicht mehr ausreichend ist. Damit die Stakeholder Fortschritte belohnen können, muss das Management CSR-Programme etablieren, die bei ihren Stakeholdern Resonanz finden, und darüberhinaus kontinuierlich über die CSR-Leistungen ihres Unternehmens berichten.

Abstract

In an increasingly connected world, firms find themselves in a complex web of relationships composed of various actors, where firm and industry boundaries start to vanish. This poses a challenge to the very existence of traditional business models and firms face intense competition from every direction. In such a business environment, intangible assets are increasingly perceived as the basis of competitive advantage. This thesis explores tangible benefits of intangible assets, specifically focusing on corporate reputation and CSR reporting quality. We take a resource-based view (RBV) of the firm and derive our testable hypotheses from the extant literature mostly in reputation, leadership, stakeholder theory, legitimacy theory, and signaling theory. In performing our calculations, we adopt a structural equation modeling approach and alternatively, a generalized structural equation modeling approach, when applicable. The studies and associated analyses have been presented in four complementary chapters. The first three studies concentrate on reputational perceptions in Germany, based on a series of surveys conducted by *Manager Magazin*, while the last study concentrates on CSR reporting quality and its relation to financial performance in China through the use of "Gold Bee Corporate Responsibility Assessment System", which has been developed by *the CSR Reporting Research Group* at *the WTO Guide CSR Development Center*.

Our results are quite striking as they emphasize a shift in our mindsets in conducting business. With these results, we make significant contributions to the prior literature and posit managerial implications. First and foremost, this work complements existing literature on key intangible corporate assets and confirms the significance of these assets in sustaining a competitive position in today's highly globalized markets with many participants. From the perspective of stakeholder, signaling, and legitimacy theories, our work contributes to the growing research on CEO and corporate reputations literature by illustrating how these reputations are formed and affect each other. Our research has also repercussions for the resource-based view of the firm. We illustrate that, besides corporate reputation, CEO reputation is a vital intangible corporate asset to create stakeholder value and should be an integral part of future reputation studies. Moreover, we showcase the direct link between corporate reputation and profitability as well as the direct link between market value and prior corporate reputation. Furthermore, we provide evidence for the indirect but statistically significant impact of favorable CEO reputations on improving financial performance and

enhancing market value. This result is also in support of the upper echelon theory. We further illustrate that as CEO reputation significantly contributes to corporate reputation, firms also reflect on their leaders. In addition, we contribute to the signaling literature by showing how signaling processes could work in a reputational context. We provide empirical evidence that reputations of highly reputed CEOs are perceived as signals for their competence both in the eyes of stakeholders and market participants. Last but not least, we demonstrate that even at its infancy, CSR reporting has the potential to positively influence financial performance in a developing country. We further find evidence for slack resources, where we show that firms with slack resources tend to invest more in quality CSR reports.

Practical implications of this thesis suggest that there is a business case for active management of both corporate and individual reputations by illustrating the link between various reputations and firm outcomes. Reputation can be utilized as a tool to protect and defend competitive positions, which can also work as a deterrent for potential market entrants. Similarly, CEO reputation can be utilized as a signaling tool in the market, which acts as a medium to mitigate negative news and improve stakeholder perceptions in times of crises. Additionally, we find that stakeholders are more in favor of relation-oriented skills than task-oriented skills in a leader. Hence, we propose that firms shall invest in leadership programs that focus more on relation-oriented leadership skills so that CEOs are enabled to communicate their companies' values and visions in a more credible way, effectively engage with communities around them, act as a role model, and consequently, become a source of inspiration and motivation for their employees by demonstrating excellent team player skills. Our study also presents managerial implications for disclosure practices. Undeniably, we are experiencing a change in markets, where nonfinancial metrics are gaining prevalence each passing day. As various stakeholder groups become more vocal about social and environmental issues and investors integrate nonfinancial metrics into their investment decisions more and more, managers need to continuously adapt and cope with ever changing demands of multiple stakeholder groups. Our results indicate that mere compliance with rules and regulations does not suffice anymore since in order for stakeholders to reward progress, companies need to partake in CSR programs that resonate with their stakeholders and properly report on their associated CSR performance.

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Chapter 1

Introduction

The move from the analog world to a digital one in the 21^{st} century has brought increased processing power and communication speed, which facilitate information and data sharing. In the era of digitalization, stakeholders are greatly empowered through vast amount of information at their disposal. Firms, on the other hand, find themselves in a complex web of relationships, where they need to operate within well connected networks of various actors and we observe firm and industry boundaries start to disappear. This challenges the very existence of traditional business models since firms are blindsided in the face of intense competition, which could potentially come from any direction (Aksin-Sivrikaya and Bhattacharya, 2017).

In such a business environment, intangible assets are increasingly perceived as the basis of competitive advantage for firms across the world (Bianchi, 2017; Haskel and Westlake, 2018; Manikas et al., 2019). As intangible assets are becoming a major portion of corporate assets, interest in the subject has spiked both among scholars and policy makers (Shin et al., 2017). Itami (1991) suggests that *invisible* assets refer to "a particular technology, accumulated consumer information, brand name, reputation and corporate culture" and are often the only real source of sustained competitive advantage.

The theoretical underpinning of our work, the resource-based view (RBV) of the firm suggests that valuable, rare, inimitable, and non-substitutable corporate resources deliver firms a sustainable competitive advantage (Barney, 1986). The RBV underlines the particular efficacy of intangible assets in generating economic rents (Taylor, 1999). Intangible assets are inherently rooted in a complex web of human and technological layers and play a key role in sustaining competitive advantage due to this immobile and inimitable nature. The market value of a firm is the value of intangible assets and tangibles assets put together. The tangible value can be measured by replacement costs of physical assets such as plant, equipment, inventory, and short-term assets. Intangible assets, on the other hand, can be attributed to brand, knowledge, culture, employee relations, patents, and copyrights, which are tacit and less likely to be traded in factor markets (Manikas et al., 2019).

Managers may be reluctant to invest in intangible assets as they are perceived to be "invisible" and believed to have no contribution to short term financial performance (Edmans, 2009). However, this myopic behavior penalizes companies both in the short and longer run. Gardberg and Fombrun (2006) suggest that intangible assets help companies overcome nationalistic barriers, facilitate globalization, and build local advantage. They argue that, specifically through corporate citizenship activities, global companies gain legitimacy, reputational capital, commitment, loyalty, and competitive advantage. These intangible assets act as a safety net in times of crisis and protect companies against downside risk (Fombrun et al., 2000).

In this thesis our main focus lies with reputation. Social evaluations such as reputation are socially-constructed, collective perceptions of firms, which alter stakeholders' willingness to engage in resource exchanges with firms and act as intangible assets that may lead to great gains or losses depending on whether the particular reputation is favorable or not (Pollock et al., 2019; Rindova and Fombrun, 1999). A favorable corporate reputation is highlighted as the company's single most important asset in the literature (Gibson et al., 2006). Good reputation enables firms to charge premium prices (e.g., Fombrun, 1996), attract talent and reduce turnover (e.g., Makarius et al., 2017), and lure investors easing access to capital (e.g., Dowling, 2006). Accordingly, many studies have come to the conclusion that corporate reputations can contribute to firm value (Fombrun and Shanley, 1990; Roberts and Dowling, 2002).

CEO reputation is a crucial component of corporate reputation. A series of Burson-Marsteller surveys conducted among business executives, the media, financial analysts, institutional investors, and government officials suggest that nearly 50% of a company's reputation is attributable to the CEO's reputation (Gaines-Ross, 2017). Executive talent is known to be associated with the intangible asset value of a firm (Bartlett and Ghoshal, 2002). Digitalization has led to a substantial socio-informational change, which initiated increased personalization, greater accessibility, and engagement that brought corporate practices and leadership under the spotlight (Bendisch et al., 2013; Nanton and Dicks, 2015). CEO brands such as Richard Branson, Steve Jobs, and Jeff Bezos have become precious marketing communication tools that serve as valuable intangible assets to their firms (Rosenberger, 2015), often more influential than even the corporate brand (Cottan-Nir and Lehman-Wilzig, 2018).

Over the last few decades, the role of Corporate Social Responsibility (CSR) performance in relation to intangible assets and financial performance has also been studied. Both the RBV and stakeholder theory advocate investments in CSR activities that capture the loyalty and affection of multiple stakeholders, which in turn boost firms' internal intangible resources such as employee morale, knowledge, innovation, and corporate culture as well as external intangible resources such as corporate reputation and goodwill. Investment in CSR and its proper disclosure play a crucial role in the accumulation of intangible assets and sustaining a favorable competitive position (Briones Peñalver et al, 2018; Khan et al, 2018).

A recent McKinsey survey (2020) reveals that CSR activities (or alternatively 'Environmental, Social, and Governance (ESG) programs') are seen as a business imperative by executives. With a substantial 71%, one of the top reasons why they claim that their companies address CSR topics is management of reputation. Flammer and Luo (2017) argue that CSR can be used as a strategic management tool, which increases employee engagement and mitigate adverse employee behavior. Flammer and Bansal (2017) show that corporate short-termism is hampering business success. Companies that impose contracts with long-term incentives on executives in the form of long-term executive compensation, prove to improve business performance. They also find firms that engage in such contracts make more investments in R&D and stakeholder engagement, which in turn deeply resonate with employees and other stakeholders. It is already established in the literature that increased employee satisfaction leads to improvements in productivity. For example, consistent with human capital-centered theories of the firm, Edmans (2011) finds that employee satisfaction is positively correlated with shareholder returns.

As intangible assets become more and more central in value creation processes and corporate strategy, there is an increasing focus on the disclosure of non-financial information specifically related to intangible assets. This focus is both regulatory and demand driven. From the management side, we observe a trend that moves towards inclusion of more and more CSR-related information (Arvidsson, 2011). Today it is widely accepted that the value of a business activity is no longer dependent on material or financial assets but on intangible ones. Therefore, investors also have a rapidly growing demand for relevant and more penetrating company information in an attempt to understand the "real" value of a business (Zambon and Bergamini, 2016). For instance, in an empirical study, Labidi and Gajewski (2019) find that when new equity issuers disclose more information on intangible assets, secondary market liquidity immediately improves following the issue. This result shows that companies can improve stock liquidity by giving investors more information on intangibles.

Even though both scholarly and managerial interest in intangible assets and their disclosure have increased in recent years, few studies provide insight on how markets capitalize on intangible assets such as reputation or specifically CSR reputation. Our major contribution lies here. We ground our work in a resource-based view (RBV) of the firm and derive our testable hypotheses from the literature mainly in reputation, leadership, stakeholder theory, legitimacy theory, and signaling theory. In the empirical part, we adopt a structural equation modeling approach and alternatively a generalized structural equation modeling approach when applicable. This thesis is composed of six chapters. Whereas the next three chapters focus on reputational perceptions in Germany, the fifth chapter focuses on CSR reputation and its consequences in China, and with the sixth chapter we conclude.

Reputation management is not always straightforward as reputation cannot easily be quantified. The consequential relevance of corporate rankings has attracted attention in research, but too few studies have actually focused on the antecedent processes that generate these rankings (Bermiss et al., 2013; Rindova et al., 2005). By using data from Manager Magazin's reputation surveys, the **second chapter** primarily explores antecedents of corporate reputation and underlines the importance of different reputational dimensions that may help companies in maintaining good reputations. The aim of the chapter is to identify the most important drivers of corporate reputation and propose in which reputational capabilities firms should invest by disentangling reputation-building mechanisms that affect overall reputation. To our knowledge no other empirical study in the literature has made such a comparison between different types of reputation and analyzed their respective power over total corporate reputation. Moreover, most empirical work on the determinants of corporate reputations has focused on the US. There are few studies that focus on country-level drivers and contextual differences across countries in forming reputations (Gardberg, 2006; Soleimani et al., 2014). Our study also addresses this gap by providing evidence from Germany.

The **third chapter** investigates CEO reputation and the leadership characteristics that are most influential in forming favorable CEO reputations. Although theoretical and empirical research on reputation at the firm-level is rich and well established, CEO-level reputation within the firm has received less attention (Graffin et al., 2012). Reputational dynamics behind leaders are clearly different than those behind companies. There is little consensus among researchers and practitioners about what constitutes a good leader and how to train them. There is a lack of agreement on definitions and conceptualizations of leadership, too (Cumberland et al., 2016; Park et al., 2018). There is a wide variety of leadership styles and traits, but there is no conclusive evidence for the most effective ones in driving a CEO's quality. Furthermore, scholars have not been able to find consistent links between specific CEO characteristics and organizational performance (Finkelstein et al., 2009). Khurana (2004) proposes that this is so because it is difficult to know ex ante what characteristics in a CEO are needed for success. With this chapter, we take the first step towards uncovering the most important characteristics of successful CEOs. Our goal here is to identify the characteristics that are most influential in determining a CEO's reputation. The literature is lacking in terms of employing multiple measures to capture CEO reputation; this is a gap we address and we point out what kind of competencies business schools and firms need to invest in for effective leadership. We further show that CEO reputations reflect favorably on corporate reputations as well.

The **fourth chapter** provides a broader look at how multiple reputations collide and affect firm outcomes. Most reputation studies focus on the effect of one type of reputation on one or more specific firm outcomes. Whereas this approach has helped us begin to comprehend the impact of reputation across various settings and outcomes, it does not account for the existence of multiple reputations that collectively influence a given firm outcome (Boivie et al., 2016). Research on reputation at the firm-level is relatively richer and better established, but CEO-level reputation within the firm has received less attention in comparison. Specifically, how CEO reputation is related to corporate reputation has not been widely studied (Graffin et al., 2012; Love et al., 2017). Furthermore, even though a resource-based view (RBV) of the firm is widely discussed in this context, intangible resources and their impacts on firm performance are relatively scarce in empirical research (Ang and Wight, 2009; Barney, 1991). In this vein, we take the first step towards building theory with supporting empirical evidence for the benefits of intangible corporate assets. Our work contributes to reputation literature by being among the first to combine quantified CEO and corporate reputations, investigate how these reputations affect each other, and establish that together they play a role in boosting financial performance and overall business value.

The **fifth chapter** concentrates on CSR reporting quality and its impact on financial performance in China. Tracking and reporting progress is a vital part of business.

Nonetheless, despite the immense size and enormous growth potential of China, research in the CSR field and specifically on CSR disclosure is limited. CSR disclosure research is largely under-theorized as most studies conducted, both in the context of China and in the developing countries context at large, do not use a specific theoretical framework to explain the dynamics behind high quality CSR disclosure and its interaction with different firm characteristics and outcomes (Ali et al., 2017; Rahman Belal and Momin, 2009). By taking a resource-based view, we leverage legitimacy, slack resources, and stakeholder theories in order to understand and explain how the quality of a CSR report and financial performance are related. In our empirical analysis we use data from "Gold Bee Corporate Responsibility Assessment System", which has been developed by the *CSR Reporting Research Group* at the WTO Guide CSR Development Center. The results of our generalized structural equation model suggest a recursive relationship between CSR disclosure quality and financial performance, which means that even at its infancy in China, there is great potential in CSR reporting and that high quality reports lead to favorable organizational performance.

Overall, in this thesis our major results highlight the importance of intangible corporate assets and present supporting empirical evidence for the claim that intangible corporate assets are significant sources of competitive advantage even in different countries with very different corporate governance dynamics. With these results, we strongly encourage firms to accumulate intangible corporate assets to differentiate themselves and thrive in today's highly competitive global markets.

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Chapter 2

Corporate Reputation: A Multidimensional Construct

Abstract: Corporate reputation is an intangible corporate asset and it is quite well established in the literature that highly reputed companies enjoy tangible benefits in the market place. However, it is not easy to manage as reputation is indeed intangible; there is no consensus on its numerous definitions and therefore, it cannot be easily measured. Our main goal in this paper is to explain how corporate reputation is formed. We take a resource-based view of the firm and make use of extant reputation literature to address the most important drivers of corporate reputation and the reputational capabilities that firms should invest in. In our empirical analysis, we use the data from "Image Profile Survey" of *Manager Magazin*, which is a well-known business magazine in Germany. Our results suggest that even though financial performance is still one of the major drivers of corporate reputation, there are even more important drivers such as corporate capabilities and corporate culture. Our analysis further highlights that especially non-financial factors have been gaining traction both in academia and practice. We strongly believe that these so-called *soft factors* will become even more important in the eyes of multiple stakeholder groups in years to come. We also underline the significance of industry-specific effects when corporate reputation is concerned. We show that the relationships we introduce in our conceptual model differ across industries. Our overall results advocate an active management of corporate reputation in order to benefit from a sustained competitive advantage.

Keywords: *Corporate reputation, strategy, product reputation, cultural reputation, financial reputation, resource-based view*

2.1 Introduction

Amid recent corporate scandals, corporate reputation has been gaining traction in contemporary marketing and management literature as well as managerial practice (Hildebrandt, et al., 2010). Corporate reputation matters for numerous reasons. The link between reputation and sustained competitive advantage is widely accepted in the literature (Fombrun and Shanley, 1990; Hall, 1993; Fombrun, 1996; Roberts and Dowling, 2002).

Furthermore, researchers have constantly found a positive relationship between reputation and financial performance (Fombrun and Shanley, 1990; Brown and Perry, 1994; Deephouse, 2000). While Gibson et al. (2006) nominate reputation as the single most valued asset of an organization; Hall (1993) shows that CEOs have identified corporate reputation as the most important key intangible resource. Even though it is not directly observed, corporate reputation is an important concern in strategic planning at a given company since it serves as an assessment of the company by multiple stakeholder groups (Hildebrandt, et al., 2010). Moreover, in today's highly competitive global markets, reputation has been playing a crucial role now more than ever (Abimbola and Vallester, 2007).

Some of many strategic benefits of a good reputation can be listed as lowered firm costs (Fombrun, 1996; Deephouse, 2000); the firms' ability to charge premium prices (Fombrun and Shanley, 1990; Fombrun, 1996; Deephouse, 2000; Rindova, et al., 2005); the firms' capacity to attract talent (Fombrun, 1996; Turban and Greening, 1997), investors (Srivastava, et al., 1997), and customers (Fombrun, 1996); increased profitability (Roberts and Dowling, 2002); and deterring competitors by creating entry barriers (Milgrom and Roberts, 1982; Fombrun, 1996; Deephouse, 2000). What is more, stakeholders are more likely to engage in contracts with highly reputed firms (Deephouse, 2000; Rhee and Haunschild, 2006). Due to the presence of economic rents earned on reputation, firms are incentivized to maintain and invest in their reputations.

However, reputation management is not always straightforward as it is not a tangible corporate resource that can easily be quantified. The consequential relevance of corporate rankings has attracted attention in research but too few studies have actually focused on the antecedent processes that generate these rankings (Rindova et al., 2005; Bermiss et al., 2013). The aim of this paper is to address this gap and identify the most important drivers of corporate reputation by taking a resource-based approach. Our main goal is to disentangle reputation-building mechanisms that affect overall reputation and propose in which reputational capabilities firms should invest. Our contribution lies with the fact that no other study in the literature made such a comparison between different types of reputation empirically and analyzed their respective power over aggregate corporate reputation. Furthermore, most empirical work on the determinants of corporate reputations has focused on the US. There is limited knowledge on country-level drivers and contextual differences across countries in forming reputations (Gardberg, 2006; Soleimani et al., 2014). Our study also addresses this gap by providing evidence from Germany.

The rest of the paper is organized as follows: *Section 2.2* sets out the conceptual framework of the paper followed by *Section 2.3*, in which we introduce our dataset and methodology. *Section 2.4* demonstrates our results with related discussion by briefly commenting on practical implications as well as limitations of the obtained results and identifies new avenues for future research, and finally, with *Section 2.5* we conclude.

2.2 Conceptual Framework

Conceptual challenges with the definition of corporate reputation, itself and identification of its dimensions pose a problem for achieving effective reputation management. There have been a number of recent studies that quantify reputational impact as well as its dimensions and drivers (e.g. Berens and van Riel, 2004; Helm, 2005; 2007; Hildebrandt, et al., 2010; Fombrun et al., 2015). In most of these analyses, due to lack of a regularly collected company and/or industry specific data with time series character, usually aggregated rankings such as the Fortune Reputation Index are used (Hildebrandt, et al., 2010).

Definition of corporate reputation is one of the fundamental problems in the literature and there is hardly any consensus among researchers (Wartick, 2002; Walker, 2010). Following from Fombrun (1996), in our analysis, we define corporate reputation as “a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents when compared to other leading rivals” indicating that corporate reputation builds on the perceptions of stakeholders and differentiates a firm from its competitors in the market place. Therefore, we perceive reputation as a valuable and rare intangible resource that leads to a sustained competitive advantage (Deephouse, 2000; Roberts and Dowling, 2002). Since the root of a company’s overall reputation is the perceptions of its multiple stakeholders (Newburry, 2010) and each group of stakeholders responds to different set of signals or informational inputs (Spence, 1973; Prabhu and Stewart, 2001); we advocate an active management of reputation targeting each group as it is essential for the survival of a firm in today’s highly competitive and globalized business environment.

This brings us to the question how exactly reputations can be managed. What are the antecedents of a good reputation? Reputation can only be managed if firms are aware of the corporate functions in which they should invest and measure respective returns of these investments.

The literature suggests that it is possible to distinguish between three types of corporate reputation: Financial reputation, product reputation and cultural reputation (Weigelt and Camerer, 1988; Mahon, 2002). These independent dimensions represent different aspects of corporate reputation. Different stakeholder groups possess both a generalized view of corporate reputation and specific views based on specific reputation dimensions (Lange et al., 2011). Building on these streams of literature, we group reputational dimensions under relevant types of reputation and investigate their validity and effects on the overall corporate reputation.

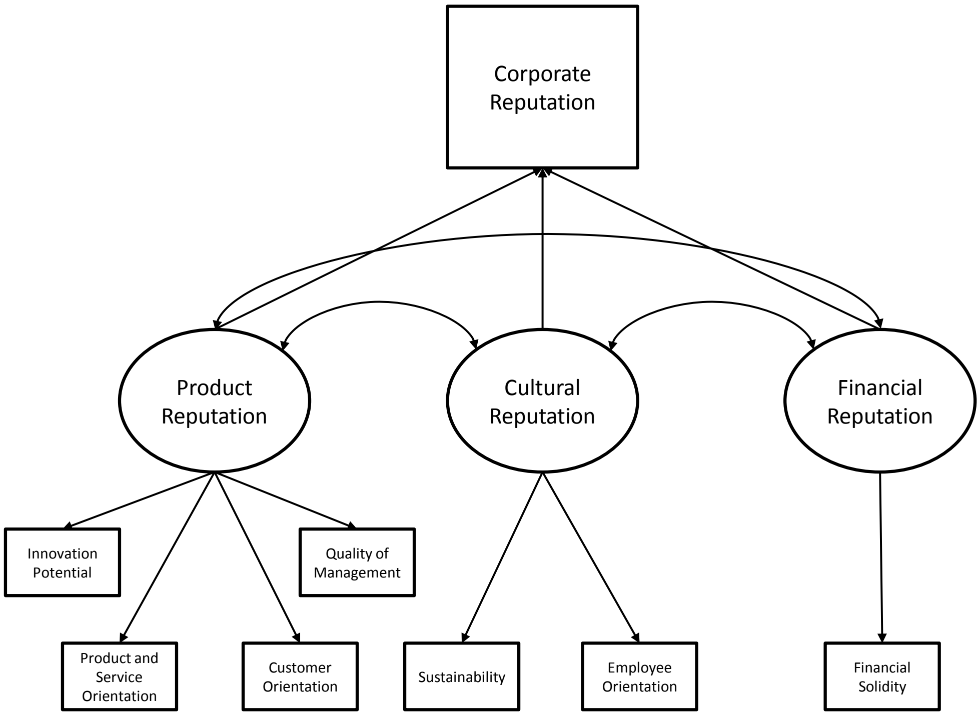

Figure 2.1: A conceptual model of corporate reputation

Financial reputation is associated with the financial performance of the firm whereas product reputation is related to the corporate capabilities such as product and service quality, customer service, quality of management and innovation potential. Finally, cultural reputation is related to the corporate culture and it is about how a given company treats its employees and other stakeholders in a broader sense.

Accordingly, in our conceptual framework, we suggest that corporate reputation is formed by three different types of reputations that are unobserved: Product reputation, cultural reputation and financial reputation. While product reputation is represented by innovation potential, quality of management, customer orientation, and product and service orientation; cultural reputation is represented by employee orientation and sustainability. In addition, financial reputation is measured by financial solidity, as depicted in *Figure 2.1*. We now explain each these relationships in greater detail.

2.2.1 Financial performance and corporate reputation

Traditionally, financial factors have been the main driver of corporate reputation as some stakeholders believe a given company is 'good' provided that it performed well in financial terms in the past. This 'financial halo effect' is quite often addressed in the literature (Brown and Perry, 1994; Roberts and Dowling, 2002). Profitability and growth prospects are known to influence reputation ratings dearly (Fombrun and Shanley, 1990) and found to be consistent correlates of reputation in many academic studies (Lange et al., 2011).

Even though different stakeholders have different expectations from a company, strong financial performance can be in part perceived as a consequence of satisfying these diverse expectations (Donaldson and Preston, 1995; Waddock and Graves, 1997; Walsh et al., 2003; Soleimani et al., 2014). Past and present profitability signal operational success and the likelihood of sustainable profits, which give an indication of the strength of future prospects of the company for growth (Fombrun, et al., 2015). Good financial reputations that are led by high accounting profits generate immediate value for investors since these signals can be easily observed and processed. Hence, investors tend to believe such companies have strong prospects for growth and they would be willing to buy and hold their stocks (Sobol et al., 1992; Raithel and Schwaiger, 2015). We therefore, hypothesize that:

Hypothesis 1: Financial reputation has a positive impact on corporate reputation.

2.2.2 Corporate capability and corporate reputation

Product reputation is the collective evaluation of the quality of a company's products, services, and workforce. For most stakeholders, reputation of a firm comes from its capability as they know of a company usually from its products and services. As a part of capability, innovation is an important firm asset, which generates respect and admiration for the innovator, hence reputation. Corporate reputation is also a consequence of a variety of management practices and behavior (Melo and Garrido-Morgado, 2012); managers also matter here in the sense that they are the ones who determine the strategic direction of the firm (Fombrun, et al., 2015).

Quality of management. In some instances, stakeholders might find it difficult to evaluate product quality prior to purchase. In such instances, they might use inputs and/or the quality of the productive assets of a firm to assess the final quality of a product. Since the inputs that an organization uses in its production processes affect the quality of products, these could be perceived as a signal for product quality and firm capability by market participants (Barney, 1991; Moran and Ghoshal, 1999; Rindova, et al., 2005). Quality of the management is one of the productive assets that the firm utilizes in the production process. People see leadership as the driving force behind organizational outcomes (Nohria and Khurana, 2010; Yukl, 2012) which is also supported by the upper echelon perspective in managerial research that suggests the firm is a reflection of its leaders (Hambrick and Mason, 1984).

Research proves that managers differ in their abilities (Goldfarb and Yang, 2009). Capable leaders enjoy better media coverage and attract investors that send a signal to all stakeholders about the credibility of the company which in turn increases trust in the company and help building corporate reputation (Fombrun, et al., 2015; Love et al., 2017).

Innovation potential. Innovation capability is another form of signaling. It is an important firm asset (Fang et al., 2011) and a source of respect and admiration for the innovator. Its impact though, is very much dependent on how a particular innovation is communicated to various stakeholders and whether it is deemed effective (Courtright and Smudde, 2009). Rankings published by agencies and media outlets such as Bloomberg, Business Week, and Forbes add to the visibility and reputation of firms by conveying information on innovativeness. Investors and other stakeholders reward those companies that are able to adapt, develop new ideas and innovate (Fombrun et al., 2015).

Customer orientation. In the literature, it is quite well established that a high level of customer satisfaction is a source of competitive advantage and reputation (Saeidi et al., 2015). The ability to build a positive reputation through increased customer satisfaction is crucial for a company's survival and performance (Clarkson, 1995). Corporate reputation can be seen as a reflection of the degree to which the customers are satisfied with the products and services of a given company. Many researchers found that corporate reputation and customer satisfaction are highly correlated and that customer satisfaction has a positive impact on corporate reputation (e.g. Davies et al., 2003; Walsh et al., 2006, 2009; Galbreath and Shum, 2012; Saeidi et al., 2015). Furthermore, Nguyen and Leblanc (2001) concluded that corporate reputation is a good indicator of whether or not a firm's customers are satisfied. This in turn, is expected to affect certain business outcomes. For instance, customers are willing to pay a premium for a good or a service if the company has a good company or product based reputation (Mahon, 2002).

Product and service orientation. Most stakeholders recognize product brands rather than corporate brands since they interact with product and service offerings of companies in the market place. Therefore, in most cases, their perceptions of corporate reputation are very much influenced by their opinions on product brands (Rao et al., 1999; Smith et al., 2010).

Stakeholders, especially customers, are likely to develop certain beliefs about a company based on the quality of its products and services, the price level they are offered, perceived price-performance ratio, and the customer support provided after the purchase of the product or service (Dawar and Parker, 1994; Lange et al., 2011). Game theory illustrates that the main source of corporate reputations is actually the investments that are made to improve the quality of products and services (Milgrom and Roberts, 1986).

All these capabilities make up for product reputation. Therefore, we suggest that

Hypothesis 2: Product reputation has a positive impact on corporate reputation.

2.2.3 Corporate culture and corporate reputation

Organizational theory suggests that the culture of a firm has an influence on strategy implementation and performance (Jelinek et al., 1983; Jones, 1983; Wilkins and Ouchi, 1983). Aspects of corporate culture such as workplace environment, sustainability practices, and corporate responsibility also significantly contribute to a firm's reputation (Shapiro, 1983; Freeman, 1994). For certain stakeholder groups such as employees and customer, these factors create even more value than accounting profits (Korschun, et al., 2014; Raithel and Schwaiger, 2015).

Employee orientation. Several formal reputation-building models illustrate why corporate culture can maintain an efficient and implicit contract system (Cremer, 1986; Camerer and Vepsalainen, 1988). As there is no complete contract, existing contract systems require employees to give the firm a broad range of authority to resolve unforeseen contingencies. In such a system, employees need to have faith in the firm processes and believe equitable results will be achieved. The root of this faith is the firm's reputation for responding to unforeseen events by adopting clear, well known, 'unwritten rules' to treat employees fairly and these unwritten rules are the corporate culture. This kind of corporate culture leads to a good reputation and this reputation in turn promotes hard work and efficiency among employees (Weigelt and Camerer, 1988). Furthermore, research also indicates that most stakeholders like and respect companies that maintain good working conditions (e.g. Martin et al., 2011; Fombrun et al., 2015; Raithel and Schwaiger, 2015).

A good reputation not only allows firms to promote hard work and efficiency but also helps in attracting and retaining high-quality employees (Alniacik et al., 2012; Melo and Garrido-Morgado, 2012; Nolan et al., 2013). An employee who is not treated well will choose to leave the firm for another position in another firm offering better conditions and many studies show that employees are willing to trade off salary and other benefits in order to work for a well reputed firm (Weigelt and Camerer, 1988; Mahon, 2002). Satisfied employees tend to act as ambassadors of the company and likely to commit to long-term involvement (Fombrun et al., 2015).

Sustainability. Stakeholders increasingly judge companies on the basis of their good deeds. They want to know about the corporate behind the brands and products and punish those who fail to meet their moral standards (Lewis, 2001). On the other hand, they tend to respect and admire those that perform good deeds (Orlitzky and Swanson, 2012; Raithel and Schwaiger, 2015). Executives and business press believe that by engaging in sustainability initiatives, firms enhance their image, maintain a good relationship with multiple stakeholder groups, and improve their reputation (e.g. Du et al., 2007; Bermiss et al., 2013).

Empirical evidence suggests that corporate citizenship can be utilized as a tool to gain legitimacy (Sridhar, 2012), which supports companies in various situations (Aaron et al.,

2012) and even protects companies in times of crisis (Mio and Fasan, 2012). It is also been found that corporate social performance is highly correlated with corporate reputation (Lange et al., 2011). As the stakeholders become more vocal and sustainability issues attract more and more attention in the press, sustainability is becoming a reputation-building investment for companies (Bermiss et al., 2013). Responsible companies who are good at communicating their good deeds are able to signal that they are good citizens and thereby, build trust and reputation (Melo and Garrido-Morgado, 2012; Fombrun et al., 2015).

Hence, our next hypothesis is

Hypothesis 3: Cultural reputation has a positive impact on corporate reputation.

2.2.4 Industry and corporate reputation

Industry level effects pose to be a critical issue in corporate reputation studies. Models that do not control for industry tend to disguise structural industrial contexts as interactions between items usually vary across industries greatly. Patterns of measurement between sustainability, performance and reputation also differ across sectors (Blomgren, 2011).

Industrial sectors face specific and localized pressures from different stakeholders (Melo and Garrido-Morgado, 2012). Brammer and Pavelin (2006) found that industry mediates the relationship between sustainability and reputation as industry-specific stakeholder pressures require different strategic responses. Porter and Kramer (2002) suggest that sectors that are prone to public controversy, such as petrochemicals and pharmaceuticals, have a keener attitude towards philanthropy. Jones (1999) studied public visibility and the degree of governmental scrutiny across sectors. He proposed that the primary sector industries to be more focused on environmental issues; the secondary sector on employees, suppliers, customers, the environment and communities; and the tertiary sector on employees and consumers.

Consequently, our final hypothesis suggests that

Hypothesis 4: There are industrial differences in the formation of corporate reputation.

2.3 Data and Methodology

We use the data originally collected for the German '*Manager Magazin*' surveys 'Image Profile' containing the largest companies operating in Germany[1]. *Manager Magazin* is one of the most prominent business magazines in Germany and its indices are widely recognized besides Fortune Magazine. Since 1987, *Manager Magazin* has been conducting surveys to measure corporate reputation. However, over the years, the sample and methodology have evolved considerably. Therefore, in our paper we conduct a cross sectional study with the data collected in year 2012.

Table 2.1: Participant profile

Female	36%
University	86%
Top management	24%
Middle management	46%
Age group: 30-50	45%
Age group: Over 50	54%
Industry experience: 10-20 yr	28%
Industry experience: Over 20 yr	60%
	Obs. 4036

Participant profiles are summarized in *Table 2.1*. Among various executives that took part in the survey, 36% of them are female and 86% are university graduates. Top management and middle management constitute 24% and 46% of the sample respectively with 88% of all participants having 10 years or more industry experience. In total, there have been 4036 participants.

Table 2.2: Data summary

Variable	Mean	Std. Dev.	Obs.
Financial solidity	6.62	2.30	57339
Innovation capability	6.28	2.25	61277
Product and service orientation	6.40	2.11	60645
Quality of management	6.18	2.24	56365
Customer orientation	6.22	2.19	59734
Employee orientation	5.69	2.22	47306
Sustainability	5.55	2.39	53302
Total reputation	6.21	2.14	62229

Notes: Ratings ranging from 0 (worst) to 10 (best)

[1] Please see Schwalbach (2015) for details.

Table 2.2 illustrates the data summary. In the survey, executives are asked to evaluate the firms that they know of in terms of reputational dimensions, namely, financial solidity, innovation potential, product and service orientation, quality of management, customer orientation, employee orientation and sustainability. The scores range from 0 (worst) to 10 (best). Company average evaluations usually fall between 5.5 – 6.4 range and dimensions are highly correlated ranging from 0.52 to 0.84. We usually observe this situation in other reputation rankings and databases too. Detailed correlations are presented in *Table 2.3*.

We start by exploring the data with a factor analysis followed by a confirmatory factor analysis. We test the validity and reliability of our conceptual model with structural equation modeling (SEM). We utilize a step-wise structural equation analysis separating measurement and testing from structural analysis. This has been necessary due to strong relations between different reputation dimensions. This approach has been adopted by many researchers in the literature (e.g., Fryxell and Wang, 1994). SEM is especially superior to more traditional statistical approaches when we deal with latent variables. Our hypothesized model suggests that corporate reputation is formed by three different types of reputations which are latent variables: Product reputation, cultural reputation and financial reputation. Product reputation is measured by 4 observed variables: innovation potential, quality of management, customer orientation, and product and service orientation. Cultural reputation is measured by 2 observed variables: Employee orientation and sustainability. Finally, financial reputation is solely determined by 1 observed variable: Financial solidity.

Table 2.3: Correlation matrix

Variable	1	2	3	4	5	6	7	8
1. Financial solidity	1							
2. Innovation capability	0.607	1						
3. Product and service orientation	0.584	0.752	1					
4. Quality of management	0.673	0.735	0.758	1				
5. Customer orientation	0.523	0.697	0.805	0.751	1			
6. Employee orientation	0.539	0.632	0.701	0.718	0.722	1		
7. Sustainability	0.561	0.629	0.666	0.697	0.676	0.736	1	
8. Total reputation	0.691	0.768	0.829	0.837	0.812	0.787	0.796	1

Notes. All significant at 0.001 level

In our baseline model (*Model 1*) and the actual model, where additional significant covariances among items were included (*Model 2*), we apply listwise deletion in cases of missing values as our dataset is sufficiently large to achieve statistical power. In these two models, we utilize a maximum likelihood estimation methodology. In *Model 3*, we also make use of the observations containing missing values. In this approach (*MLMV* method in Stata), missing values are assumed to be missing at random (MAR), which is a term used to describe situations where missing values are not just scattered completely at random throughout the data but if some of them are more likely to be missing than others, this can be predicted by the variables in the model. However, this method and previous maximum likelihood estimations in the first two models heavily rely on the assumption of joint normality of the observed variables. Therefore, for robustness, we also include a *Model 4*, where we relax this normality assumption (*ADF* method in Stata). This method generates a generalized method of moments (GMM) estimator which is asymptotic distribution free and it makes no assumption of joint normality or symmetry (Stata, 2011).

We examine the reliability of the proposed model using Cronbach's α. α coefficients presented in *Table 2.4* range from a low of 0.89 to a high of 0.91. Since the coefficients are considerably above the 0.70 threshold, there is strong evidence for scale reliability (Nunnally and Bernstein, 1994).

Table 2.4: Cronbach's α

	Image Profile
Innovation	0.91
Product & Service Orientation	0.89
Quality of Management	0.90
Customer Orientation	0.90
α for all items	**0.92**
Employee Orientation	-
Sustainability	-
α for all items	**0.85**

Notes: Individual alpha values are not reported for two-item factor.

Next, we run a first-order confirmatory factor analysis on the three-factor measurement model (Please see *Table 2.6* for estimation results). We wanted to illustrate that the dimensions of the first-order model converged. The first-order confirmatory factor analysis produces a very good fit. We use a mix of fit indices to assess the goodness-of-fit following Hair *et al.*'s recommendation (2010): Along with Coefficient of Determination (CD), we report one incremental fit index (Comparative Fit Index, CFI), one goodness-of-fit index (Trucker-Lewis Index, TLI), and one badness-of-fit index (SRMR, Standardized root mean square residual).

CD for the system of structural equations measure the amount of variation accounted for in the endogenous constructs by the exogenous constructs. Values above 0.95 show a very good fit. A CFI and TLI above 0.90 indicate convergent validity. All SRMR values are less than 0.05 and indicate a good fit as well. Please note that for MLMV option in Stata, SRMR values are not reported due to missing data. *Table 2.5* presents all the fit indices and show that proposed models exhibit good fit.

Table 2.5: Confirmatory factor analysis goodness-of-fit statistics

	1	2	3	4
CFI	0.973	0.982	0.982	0.917
TLI	0.952	0.962	0.963	0.826
SRMR	0.022	0.019	-	0.035
CD	0.968	0.968	0.967	0.972

CFI: Comparative fit index TLI: Tucker Lewis index
SRMR: Standardized root mean square residual CD: Coefficient of determination

χ^2 test statistic is the most commonly cited fit index in the literature and in our case it is significant. However, relying on this index posits problems when the data is not multivariate normal. Furthermore, it is very sensitive to sample size and also affected by the number of parameters in the model (Satorra and Bentler, 2001; Schmermelleh-Engel et al., 2003). In large samples, χ^2 tests almost always result with the rejection of the proposed model. In our analysis, p-values did not exceed 0.05. Yet, it is quite established in the literature that there can be inconsistencies among indices and having χ^2 as the outlier is common (Eagle et al., 2001). Hence, it is reasonable to conclude that we have a strong model fit.

Table 2.6: Confirmatory factor analysis (standardized)

	Model 1	Model 2	Model 3	Model 4
Measurement				
Product reputation → Customer orientation	0.88	0.85	0.84	0.88
Quality of management	0.88	0.90	0.90	0.91
Innovation	0.84	0.84	0.83	0.85
Product&Service or.	0.89	0.89	0.88	0.90
Cultural reputation → Sustainability	0.85	0.85	0.84	0.85
Employee orientation	0.87	0.87	0.87	0.88
Financial reputation → Financial solidity	1 (cons.)	1 (cons.)	1 (cons.)	1 (cons.)
Number of observations	41921	41921	62222	41921
χ^2	6606.07	4419.05	5460.14	2170.58
Notes: *All significant at 0.001 level. Constants are not reported.*				

2.4 Results

Using Stata Software, a structural equation model was fitted to the study item set, with 8 observed variables from the survey (7 dimensions of corporate reputation and overall corporate reputation) and 3 latent variables representing product reputation, cultural reputation and financial reputation.

Table 2.7 presents our findings from the pooled data. Results support first three hypotheses. All path coefficients in all 4 models are significant at 0.001 level. Product reputation, cultural reputation, and financial reputation have a significant positive impact on corporate reputation.

All 4 models also provide comparable results. We observe that corporate capability dominates corporate culture and financial performance in driving corporate reputation with financial performance having the least importance.

Table 2.7: Pooled SEM results (standardized)

		Model 1	**Model 2**	**Model 3**	**Model 4**
Measurement					
Product reputation	→ Customer orientation	0.87	0.86	0.85	0.88
	Quality of management	0.88	0.89	0.88	0.91
	Innovation	0.84	0.84	0.83	0.85
	Product&Service or.	0.89	0.88	0.88	0.89
Cultural reputation	→ Sustainability	0.86	0.86	0.86	0.87
	Employee orientation	0.86	0.85	0.85	0.87
Financial reputation	→ Financial solidity	1 (cons.)	1 (cons.)	1 (cons.)	1 (cons.)
Product reputation	→ Corporate reputation	0.50	0.56	0.58	0.56
Cultural reputation		0.41	0.38	0.36	0.37
Financial reputation		0.08	0.05	0.05	0.07
Number of observations		41556	41556	63264	41556
χ^2		7028.29	4783.91	6452.36	2396.18

Notes: *All significant at 0.001 level. Constants are not reported.*

This proves that in the European context, financial performance is a significant factor but non-financial factors are more important in forming reputations. Path coefficients for product reputation range between 0.5 and 0.58 providing the strongest contributor of corporate reputation. Whereas path coefficients for cultural reputation range between 0.36 and 0.41, path coefficients for financial reputation ranged from a low of 0.05 to a high of 0.08 indicating the weakest contribution in corporate reputation. These results suggest that firms should invest in non-financial reputation-building capabilities for highest reputational returns.

Table 2.8 shows that the proposed model fits the data very well with all indices on recommended levels: CFI = 0.92-0.99, TLI = 0.83-0.97, SRMR = 0.017-0.035, CD = 0.98.

Table 2.8: Goodness-of-fit statistics (pooled models)

	1	2	3	4
CFI	0.978	0.985	0.985	0.915
TLI	0.962	0.971	0.970	0.830
SRMR	0.020	0.017	-	0.035
CD	0.980	0.978	0.977	0.982

CFI: Comparative fit index
TLI: Tucker Lewis index
SRMR: Standardized root mean square residual
CD: Coefficient of determination

We also found support for our fourth hypothesis. *Table 2.9* explores separate industries. When we look at separate industries, we observe a drastic change in the dynamics of corporate reputation. All three components of corporate reputation are still positive and significant (with the only exception being *Pharmaceuticals*), for instance, in *Automotive*, product reputation seems to be the main force in forming reputations (0.66) followed by cultural (0.27) and financial reputation (0.04). Yet, in *Finance* cultural reputation drives corporate reputation (0.65). We observe *Industrial Goods* lie somewhere in the middle, where results are very similar to the results of the pooled models with the path coefficient for product reputation 0.50, cultural reputation 0.41 and financial reputation 0.08. Similar to *Finance*, in *Oil & Gas* and *Media*, culture also strongly dominates other factors. These results suggest that companies in certain industries where stakeholder trust is inherently more of an issue tend to have larger reputational payoffs if they invest in sustainability initiatives and human capital.

When we look at the results closely, we see that there is high fluctuation in the magnitude of path coefficients, which is something we have already predicted. Path coefficients for product reputation range between 0.13 and 0.69 and cultural reputation between 0.27 and 0.89. However, financial reputation always comes third with magnitudes between 0.002 and 0.18. The only exception is *Pharmaceuticals*, where path coefficient of product reputation is insignificant. This could be due to the fact that pharmaceutical companies in the sample are all large companies and their capabilities are comparable. The difference might lie in the cultural dimension (0.89) meaning cultural reputation helps companies gain a competitive edge in the market place.

Goodness-of-it statistics again indicate an excellent fit. *Table 2.10* shows that the proposed models fit the data very well with all indices on recommended levels: CFI = 0.96-0.99, TLI = 0.92-0.99, SRMR = 0.010-0.034, CD = 0.97-0.99.

Our work has important theoretical and managerial implications. First and foremost, our paper contributes to the growing stream of research in corporate reputation. We shed light on how corporate reputations are formed and have identified the type of reputations that are most influential in forming overall corporate reputations. We have shown that in a European context, the dynamics of corporate reputation is quite different than those in Anglo-Saxon countries, where there are considerable differences in corporate governance practices. Our pooled results indicate that stakeholders in Germany predominantly care about product reputation but they also seem to heavily weigh in cultural reputation.

This result points at an emerging sustainability trend, which implies that executives in various organizations need to adapt their conventional priorities and start working on ways in which they can invest and improve their organization' cultural capital. Our empirical results suggest that sustainability and employee initiatives emerge as a source of admiration for stakeholders and a major contributor of corporate reputations. Besides country contexts, we illustrate that industrial contexts also matter. We have shown that when we analyze separate industries, reputation dynamics drastically change and there are occasions where cultural reputation comes on top in reputation evaluations. We have further shown that in industries, where there are inherent trust issues, investments in reputation building activities have more to offer. This particular conclusion is quite crucial for managers as they can now focus on reputation building activities that are more beneficial for their given industry.

We deduce these conclusions through executive responses from the *Manager Magazin*'s survey. Some researchers suggest that it is better to conceptualize and examine reputation as specific to a certain stakeholder group (Rindova et al., 2005; Mishina et al., 2012). In our case, our framework is more applicable with executives as the respondents. Only industry experts would be aware of and able to evaluate all these reputational dimensions presented in our paper. We believe that the fact that our respondents come from different backgrounds and industries at least provides us a potential for generalizability in the European context.

Table 2.9: SEM results for separate industries (standardized)

	1	2	3	4	5	6	7	8	9	10
Measurement										
F1 → Customer orientation	0.87	0.83	0.85	0.86	0.83	0.86	0.87	0.88	0.84	0.85
Quality of man.	0.90	0.89	0.88	0.88	0.89	0.90	0.88	0.90	0.86	0.88
Innovation	0.89	0.79	0.85	0.82	0.84	0.85	0.77	0.82	0.76	0.81
Product and service or.	0.91	0.90	0.87	0.83	0.86	0.86	0.88	0.90	0.85	0.87
F2 → Sustainability	0.85	0.86	0.85	0.83	0.85	0.89	0.81	0.86	0.86	0.82
Employee orientation	0.88	0.79	0.80	0.87	0.83	0.87	0.88	0.83	0.82	0.82
F3 → Financial solidity	1	1	1	1	1	1	1	1	1	1
F1 → Corporate reputation	0.66	0.28	0.13	0.64	0.60	0.50	0.61	0.39	-0.05§	0.69
F2	0.27	0.65	0.79	0.34	0.34	0.41	0.33	0.58	0.89	0.30
F3	0.04	0.06	0.06	0.01	0.04	0.08	0.03	0.01	0.18	0.002
Number of observations	7581	7944	2554	5008	3781	6262	3919	2001	541	1965
χ^2	1084.74	2247.69	452.60	503.65	713.35	1313.35	403.83	91.29	107.98	541.75

Notes. All significant at 0.001 level unless stated §(nonsignificance). Constants are not reported. F1, F2, F3 represent product reputation, cultural reputation, and financial reputation respectively. Industry classification: 1. Automotive 2. Finance 3. Oil & Gas 4. Retail 5. IT & Communication 6. Industrial Goods 7. Consumer Goods 8. Media 9. Pharmaceuticals 10. Transportation & Tourism

Table 2.10: Goodness-of-fit statistics (separate industries)

	1	2	3	4	5	6	7	8	9	10
CFI	0.985	0.963	0.975	0.986	0.975	0.975	0.985	0.995	0.976	0.964
TLI	0.967	0.921	0.947	0.971	0.946	0.947	0.968	0.988	0.948	0.922
SRMR	0.014	0.027	0.022	0.019	0.023	0.021	0.020	0.010	0.023	0.034
CD	0.978	0.981	0.973	0.980	0.975	0.978	0.979	0.986	0.979	0.977

CFI: Comparative fit index
TLI: Tucker Lewis index
SRMR: Standardized root mean square res.
CD: Coefficient of determination

As implied by our results, even though there are not many comparative studies, there is evidence that suggests factors that affect reputational assessments vary dramatically across countries. Researchers believe these variations are rooted in sociocultural, legal, and institutional differences (Apéria et al., 2004; Gardberg, 2006; Soleimani, 2014). It would be certainly of interest to replicate our analysis in different countries and find out whether emerging cultural reputation trends in Germany is also applicable to other countries. Our study captures a snapshot of corporate reputation and its dimensions. Even though, reputation is a sticky variable that does not change dramatically from year to year, the next step would be to test the validity of our conceptual model by collecting longitudinal data across various stakeholder groups to see whether our results hold in different contexts with different audiences over longer time periods. Another potential research interest to be addressed in the future is how corporate reputation as an intangible corporate asset affects business outcomes. While establishing the business case for investing in reputation-building activities, the role leadership and CEO reputation play in this relationship would also be an issue of interest.

2.5 Conclusion

Corporate reputation is an important strategic tool. While Gibson et al. (2006) propose that reputation is the single most valued asset of an organization; there is a wide consensus on the link between reputation and sustained competitive advantage in the literature (Fombrun and Shanley, 1990; Hall, 1993; Fombrun, 1996; Roberts and Dowling, 2002). Therefore, it is crucial for companies to find out how good reputations are formed and maintained. Yet, reputation management is not always straightforward as it is not directly observed, hence, cannot be easily measured. The consequences of a good reputation have attracted attention in research but too few studies have actually focused on the antecedents of reputation (Rindova et al., 2005; Bermiss et al., 2013). With this paper we make an attempt to address this gap and identify the most important drivers of corporate reputation by taking a resource-based view of the firm. Furthermore, we identify the reputational capabilities firms should invest in by disentangling reputation-building mechanisms that affect aggregate corporate reputation. To our knowledge no other study in the literature has made such a comparison between different types of reputations empirically and analyzed their respective power over total corporate reputation. Moreover, most empirical research on the determinants of corporate reputations has focused on the US. There is limited knowledge on country-level drivers and contextual differences across countries in forming reputations (Gardberg, 2006; Soleimani et al., 2014). Our study also addresses this gap by providing evidence from Germany.

Our results are quite striking. Financial performance does not seem to be the main driver of corporate reputation in Germany regardless of whether we look at separate industries or the whole sample, which is in direct conflict with extant corporate reputation research. Moreover, we can also observe that cultural reputation plays a pivotal role in forming reputations. Therefore, in the European context, financial performance may be identified as a significant factor but non-financial factors are more important in forming reputations and we predict these soft factors will become even more important in the future. Our results also indicate that there are reputational gains to be made through creating a better working environment for employees and launching sustainability initiatives that align corporate objectives with stakeholder interests.

The dynamics of corporate reputation change dramatically when we look at separate industries. Although three types of reputations still make a significant and positive contribution to the overall corporate reputation evaluations in our model, we observe that in some industries corporate capability is the main driver of reputation and in others the culture seems to be the main driver. Interestingly, financial performance always comes third in magnitude (only exception being *Pharmaceuticals*). Our results show that companies in certain industries, where stakeholder trust is hindered, have larger payoffs to be enjoyed from sustainability initiatives and human capital investments. Moreover, in markets where competition is high and corporate capabilities are comparable, cultural reputation might help companies gain a competitive edge in the market place.

Firms cannot survive without product capabilities; this is a given. On the other hand, though, as stakeholders become more and more vocal through digitalization, information asymmetries decrease and stakeholders such as employees, customers, and society at large become more instrumental for companies to create social and business value. Our results put emphasis on the necessity of escaping from the traditional profitability driven business models and investing in corporate culture. Reputation-building activities that facilitate creating a decent workplace and promoting sustainability deeply resonate with stakeholders. In this ever changing business environment of the 21st century, companies are in dire need to adapt and manage their reputations effectively. In this way, they can differentiate themselves from the competition and enjoy the perks of a sustained competitive advantage in the market place.

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Chapter 3

The Characteristics of the Most Reputed CEOs and the Impact of CEO Reputation on Corporate Reputation

Abstract: Our aim in this paper is to identify the most important characteristics that CEOs possess in driving their personal reputations and to assess the impact of CEO reputation on corporate reputation. Our reputation data was originally collected for the *Manager Magazin*, which is a well-known business magazine in Germany. The conceptual model we introduce for CEO reputation is composed of two components, namely, task and relational components. We adopt a structural equation modeling approach in the empirical part. We find that even though task component has a significant role, the relational component is the main driver of CEO reputation. Whereas the relational component is mainly driven by credibility and the ability to be a role model, the task component is driven by strategy. Our results further indicate that communication skills play a significant role for both task and relational components. Moreover, we find that CEO reputation has a sizeable positive impact on corporate reputation.

Keywords: *CEO reputation, corporate reputation, executive reputation, leadership, CEO characteristics, CEO traits, CEO behavior*

3.1 Introduction

CEOs are the faces of firms and their decisions shape corporate strategy that ultimately lead the firms to success or their demise (Carpenter et al., 2004; Nohria and Khurana, 2010; Yukl, 2013). Boards often seek CEOs that can act as "corporate saviors" and revitalize organizations through their leadership skills and strategic competence (Khurana, 2004). Some even attain "celebrity" status through media attention (Hayward et al., 2004; Wade et al., 2006). Stakeholders perceive CEOs such as Paul Polman at Unilever and Jeff Bezos at Amazon as the human force behind their firms' actions and outcomes (Finkelstein et al., 2009). This perception is shaped by the perceived quality of leaders. However, there is an inherent uncertainty when the qualities of individuals or organizations are concerned. Since reputations represent a collective judgment, an actor's reputation is thought to be an important indicator of perceived quality (Boivie et al., 2016). In managerial research, the upper echelon theory suggests that the firm is a reflection of its leaders (Hambrick and Mason, 1984), which also supports the perception that leadership is the driving force behind organizational outcomes (Nohria and Khurana, 2010; Yukl, 2011). Therefore, CEO reputation is one of the productive assets that the firms can utilize in their operations.

A favorable CEO reputation has many reported benefits. An organization's financial performance is one of the outcomes that are positively affected by CEO reputation (e.g., Deephouse, 2000; Rindova et al., 2005). Research indicates that shareholders react positively when a CEO wins the "CEO of the year" award. This suggests that stakeholders interpret CEO reputation as an indicator of CEO competence. Star CEOs are perceived to be high-performers and shareholders tend to discount a single piece of negative information that would be inconsistent with this perception (Wade et al., 2006; Boivie et al., 2016). Furthermore, it is also shown that firms whose CEOs receive more media coverage reap reputational benefits (Love et al., 2017). Capable leaders gain recognition and enjoy better media coverage and attract investors that send a signal to all stakeholders about the credibility of the company, which in turn increases trust in the company and help building corporate reputation - an important indicator of a firm's overall quality (Fombrun, et al., 2015; Love et al., 2017). This implies that highly regarded CEOs are also able to confer reputational benefits on their firms (Gaines-Ross, 2003; Graffin et al., 2012).

Some of many strategic benefits of a good reputation can be listed as lowered firm costs (Fombrun, 1996; Deephouse, 2000); the firms' ability to charge premium prices (Fombrun and Shanley, 1990; Fombrun, 1996; Deephouse, 2000; Rindova, et al., 2005); the firms' capacity to attract talent (Fombrun, 1996; Turban and Greening, 1997), investors (Srivastava, et al., 1997), and customers (Fombrun, 1996); increased profitability (Roberts and Dowling, 2002); and deterring competitors by creating entry barriers (Milgrom and Roberts, 1982; Fombrun, 1996; Deephouse, 2000). What is more, stakeholders are more likely to engage in contracts with highly reputed firms (Deephouse, 2000; Rhee and Haunschild, 2006). Due to the presence of economic rents earned on reputation, firms as well as CEOs are incentivized to maintain and invest in their reputations.

Whereas theoretical and empirical research on reputation at the firm-level is rich and well established, CEO-level reputation within the firm has received less attention (Graffin et al., 2012). Reputational dynamics behind leaders are clearly different than that of behind companies. There is little consensus among researchers and practitioners about what constitutes a good leader and how to train them. There is a lack of agreement on definitions and conceptualizations of leadership too (Cumberland et al., 2016; Park et al., 2018). There is a wide variety of leadership styles and traits but there is no conclusive evidence for the most effective ones in driving a CEO's quality. Furthermore, scholars have not been able to find consistent links between specific CEO characteristics and organizational performance (Finkelstein et al., 2009). Khurana (2004) claims that this is so because it is difficult to know ex ante what characteristics in a CEO are needed for success. In this paper, we take a first step towards uncovering the most important characteristics of successful CEOs. Our aim here is to identify the characteristics that are most influential in determining a CEO's reputation. The literature is lacking in terms of employing multiple measures to capture CEO reputation; this is a gap we address and we also would like to point out what kind of competencies business schools and firms need to invest in for effective leadership. Furthermore, we would like to empirically show that CEO reputations reflect favorably on corporate reputations as well.

Our conceptual model for CEO reputation has two components: One task- and one relation-oriented component. Our results suggest that the relational component is actually the main driver of CEO reputation, where credible leaders who inspire internal and external stakeholders reap more reputational benefits. Our results also indicate that communication skills play a role both internally within the firm and externally in respective communities that firms operate. Moreover, our analysis illustrates the significant impact of CEO reputation on corporate reputation.

The rest of the paper is organized as follows: *Section 3.2* provides a brief literature review on leadership, *Section 3.3* offers some background information on the relationship between leadership and reputation, *Section 3.4* sets out our conceptual framework followed by *Section 3.5*, where we introduce our dataset and methodology. *Section 3.6* demonstrates our results, where we also discuss limitations of the obtained results and comment on future research and finally, with *Section 3.7* we conclude.

3.2 Leadership: A Brief Literature Review

Leadership has been studied for over 100 years (McCleskey, 2014). The roots of leadership lie with one of the earliest works in the field by Galton (1869), where leadership is defined as a characteristic ability of extraordinary individuals. This conception, which is also known as 'the great man theory', later on evolved into the study of leadership (Glynn and DeJordy, 2010; McCleskey, 2014).

In managerial research, the upper echelon perspective suggests that the firms are reflections of their leaders (Hambrick and Mason, 1984). Therefore, people often think that CEOs characterize how firms are perceived. These perceptions are largely shaped by leadership quality (Love et al., 2017). However, scholars emphasize that leadership quality is not directly observed and hence, difficult to assess even for experts such as the board of directors and analysts (Khurana, 2004; Wade et al., 2006; Love et al., 2017). Furthermore, the leadership literature has been overwhelmed by construct proliferation (Derue et al., 2011) and Fiedler (1971, p.1) suggests that "there are almost as many definitions of leadership as there are persons who have attempted to define this concept."

In this section, we make an attempt to present and critically assess the most prominent conceptualizations of leadership to date in order to build our conceptual framework.

3.2.1 Transactional leadership

Transactional leadership is based on the exchanges that occur between the leader and followers in an organization (Burns, 1978; Bass, 1985; 1990; 2000; 2008). These exchanges enable the leader to achieve performance objectives through contracts, which motivate the followers towards established organizational goals by providing extrinsic rewards and fulfilling their self-interests. In this way, workplace anxiety is minimized and followers are able to focus on clear organizational objectives such as increased product quality, improved customer service and reduced costs. In this scheme, unnecessary risks are avoided and organizational efficiency is improved (Sadeghi and Pihie, 2012).

Critics claim that the transactional relationships between the leader and followers tend to be short-term oriented, shallow and often create resentment among parties. Since transactional leadership theory utilizes one-size-fits-all universal approach to leadership theory, it often overlooks situational and contextual factors that affect organizational outcomes (Burns 1978; Yukl and Mahsud, 2010; Yukl, 2011).

3.2.2 Transformational leadership

Transformational leadership is the most studied and debated idea in the field of leadership over the last 30 years (Diaz-Saenz, 2011). According to Burns (1978), a transformational leader is the one who raises followers' awareness about the importance and value of desired outcomes and methods to attain them. Over time, four components of transformational leadership have emerged: *idealized influence*, *inspirational motivation*, *intellectual stimulation*, and *individualized consideration*. Leaders are thought to exhibit these four components to varying degrees in order to accomplish organizational goals through their followers. *Idealized influence* combines two aspects of the leader-follower relationship. Firstly, the leader possesses certain qualities that the followers would also wish to possess. Secondly, the followers are impressed by the behaviors of the leader. *Inspirational motivation* for the followers is achieved by the leader through creation of a shared meaning and purpose. Enthusiasm and optimism are two vital parts of inspirational motivation. Scholars usually group these two components as charisma (Bass and Riggio, 2006). Through *intellectual stimulation* the leader enables followers to question assumptions, reformulate existing problems, innovate and apply new frameworks at the face of challenges. In this framework, the leader does not spoon-feed followers; it requires for the leader to keep an open mind and allow criticism from the followers too. This increases the self-efficacy of the followers. Increased self-efficacy in turn, leads to increased effectiveness in the organization (Bandura, 1977). Finally, *individualized consideration* requires the leader to act as a mentor to help followers reach their full potentials (McCleskey, 2014).

Empirical research is in support of the idea that transformational leadership has a positive influence on the follower and organizational performance (Diaz-Saenz, 2011). However, the problems with the identification of the underlying mechanisms of the leader influence persist even today and there are not so many studies that explore the effect of transformational leadership on work groups, teams, or organizations. Many scholars address the difficulty of the overlaps between the constructs of *idealized influence* and *inspirational motivation* and the fact that the theory lacked sufficient identification of the impact of situational and context variables on leadership effectiveness. Yet, despite criticisms, transformational leadership is one of the most studied areas in managerial research (e.g. McCleskey, 2014; Yukl 1999; 2011).

3.2.3 Situational leadership

Situational leadership advocates an adaptive approach where the leader has a rational understanding of a given situation and responds accordingly as opposed to a charismatic leader with a group of dedicated supporters (Grint, 2011). The theory evolved from a task-oriented versus people-oriented leadership continuum (Bass, 2008; Lorsch 2010; McCleskey 2014). Originally established by Hershey and Blanchard (1969), the continuum represents the extent to which the leader focuses on the required tasks or the relationship with the followers. Leaders leaning towards the task-oriented side of the spectrum tend to define the roles of the followers, give instructions, create patterns to follow, and establish formal communication channels (Bass, 2008; Hersey, 1996), whereas relation-oriented leaders show concern for others, try to reduce emotional conflicts, and encourage equal participation of the followers (Bass, 2008; Hersey and Blanchard, 1969; Shin et al., 2011).

The theory is classified both as a behavioral theory (Bass, 2008) and a contingency theory (Yukl, 2011). Both approaches have their merits. Situational leadership perceives a leader's behavior as either task or relation oriented. This is similar to the leadership styles approach (*autocratic*, *democratic*, and *laissez-faire*), the Michigan *production-oriented* versus *employee-oriented* approach, the Ohio State *initiation* versus *consideration* dichotomy, and the *directive* versus *participative* approach (Bass, 2008; Glynn and DeJordy, 2010, McCleskey, 2014). Therefore, situational leadership can also be recognized as a behavioral approach to leadership. Furthermore, situational leadership claims effective leadership is contingent on follower maturity (readiness). Maturity or readiness refers to the followers' willingness and ability to take responsibility. This is in line with other contingency-based leadership theories including Fiedler's *contingency theory*, *path-goal theory*, *leadership substitutes* theory, and Vroom's *normative contingency model* (Bass, 2008; Glynn and DeJordy, 2010; Yukl, 2011; McCleskey, 2014). Both of these conceptualizations propose that task-oriented and relation-oriented behaviors are dependent, rather than mutually exclusive. An effective leader engages in a mixture of both, the degree depending on the readiness of the followers (related to work and psychological state) and previous education and training

(Bass, 2008; Hersey and Blanchard, 1969; McCleskey, 2014; Shin et al., 2011; Yukl, 2008; 2011).

There is also some criticism around the construct though. Research revealed that behavioral theories rely on abstract leadership types that are difficult to identify. Some scholars suggest that situational leadership is lacking in terms of internal consistency and suffers from conceptual contradictions and ambiguities (Nicholls, 1985; Bass, 2008; Glynn and DeJordy, 2010). It is a common argument to claim that even though the theory is intuitively appealing for practitioners, there is lack of solid empirical evidence backing up the model. However, as more studies appear on the subject, this argument becomes less persuasive (Meirovich and Gu, 2015).

3.2.4 Overlaps

It is worth pointing out the overlaps between these conceptualizations of leadership. For instance, task-oriented leadership and transactional leadership rely on the exchange between leaders and followers and both emphasize work outcomes. Similarly, relation-oriented leadership can be compared to transformational leadership. They are both people focused, stimulating and inspirational (Burns, 1978; Bass, 2008; Conger, 2011). Both situational and transactional leadership focus on leadership behavior and ignore leadership traits and individual differences while transformational leadership focuses both on behavioral and individual differences. Transactional and transformational leadership involve universal approaches to leadership and it is quite established in the literature that transformational leadership can be applied to a wide range of situations and diverse cultural contexts (Leong and Fischer, 2011; Zhu et al., 2012). In contrast, situational leadership supports the 'right' leadership style depending on the context and situation (Bass, 2008; Hersey and Blanchard, 1969; Yukl, 2008; 2011).

Burns (1978) originally operationalized transactional and transformational leadership as two distinct leadership styles. There is empirical support that leadership in practice typically includes both transactional and transformational behaviors (e.g. Liu et al., 2011; Gundersen et al., 2012). Larsson and Vinberg (2010) have also found that successful leaders possess both universally applicable elements (task-oriented) and contingency elements (relation and change-oriented). This will be our point of departure in order to build our conceptual model.

3.3 Leadership and Reputation

There are a wide variety of leadership styles and traits but there is no conclusive evidence for the most effective ones in driving a CEO's quality. In the face of such uncertainty, we have to rely on indirect indicators of CEOs' quality such as evaluations by information intermediaries and certification contests (Deephouse, 2000; Love et al., 2017; Pollock and Rindova, 2003; Rao 1994). CEO reputation is such an evaluation, which serves as a signal of the quality that the CEO delivers over time. One can conceptualize CEO reputation as a collective judgment of a CEO's ability to consistently deliver value over time, which is something that reduces stakeholders' uncertainty in predicting future behavior and an intangible asset that may have a positive impact on organizational performance (Graffin et al., 2012). Boivie et al. (2016) also suggest that CEO reputation is an influential factor in driving business outcomes and they show that it actually helps to reduce uncertainty about a given firm's future prospects. Therefore, it is important for companies to disentangle this concept and understand the underlying leadership traits that drive reputation and firm outcomes.

CEO reputation and leadership are closely related to a CEO's personality. Therefore, the concept of CEO reputation is parallel to that of leadership (Jin and Yeo, 2011). Scholars have not been able to find consistent links between specific CEO characteristics and organizational performance (Finkelstein et al., 2009). Khurana (2004) claims that this is so because it is difficult to know *ex ante* what characteristics in a CEO are needed for success. Yet, there have been a number of studies that made an attempt to come up with proxies for CEO quality and reputation. Some studies have operationalized management style, CEO personality, charisma, and the fit between CEO characteristics such as functional background and educational level, and industry conditions (Graffin et al., 2012). Some others have investigated external assessment of CEO quality while directly or indirectly invoking the construct of CEO reputation (e.g. Milbourn, 2003). There are not many studies that employ multiple measures to capture a CEO's reputation to our knowledge. Our aim in this paper is to identify multiple measures that help shape favorable CEO reputations.

3.4 Conceptual Framework

Leadership trait theory suggests that successful leaders possess a set of psychological traits (Ilies et al., 2006) but scientific research on leadership has failed to identify a definitive list of agreed-on traits common to all effective leaders (Bass, 1990). Nonetheless, it has been shown both conceptually and empirically that most leadership operationalizations fall into two dimensions: task or relation-oriented dimensions (Fleishman, 1953; Halpin and Winer, 1957; Humphrey, 2002; Lee and Carpenter, 2018). Recently in organizational research, this approach has gained a renewed popularity (Avolio et al., 2013) and according to psychology, individuals are driven by two types of motivation: getting ahead or getting along (Hogan and Shelton, 1998), which can be translated to task-oriented and relationship-oriented leadership behavior, respectively. The managerial performance literature also posits two categories: *task performance*, which stands for structuring work and focusing on getting the work done, and *contextual performance*, which stands for facilitating the psychological and social contexts of work and getting along with others (Lee and Carpenter, 2018; Oh and Berry, 2009). In this way, we are able to capture a broad range of leadership concepts as well as getting a clear and parsimonious model for understanding leadership performance (Lee and Carpenter, 2018). This conceptualization of leadership is also in line with the classic findings of Ohio State University scholars who divide leadership behavior into two, namely, initiating structure and consideration (Halpin and Winer, 1957; Hemphill and Coons, 1957; Stogdill, 1963). Therefore, we will also divide leadership into two categories in our conceptualization. Our research explores leadership behavior and its effect on CEO reputation with the understanding that behavior is rooted in a CEO's traits and skills (Lewin et al., 1939).

The variables utilized in this study are distilled from research on leadership skills and behaviors. Comparison of different research streams and models led to a manageable and meaningful set of common variables: We measure task-oriented leadership skills by the CEOs' capabilities in strategy, enforcement, and communication, and we measure relation-oriented leadership skills by the CEOs' capabilities in community engagement, communication, being credible, and the ability to be a team player and a role model.

3.4.1 Hypotheses

Task-oriented leadership can be defined as the behaviors of the leader that contribute to the completion of tasks by organizing and directing the work of others through developing work schedules, organizing responsibilities and goals, and allocating resources (Lee and Carpenter, 2018; Park et al., 2018). In our conceptual model, we formulate task-oriented leadership skills as the ability to form strategy, enforce its implementation through the organization by using effective communication channels.

Importance of task-oriented behavior in reaching organizational goals is documented by many researchers (e.g. Blake et al., 1962; Judge et al., 2004). Strong leaders are able to rejuvenate the organization's strategic fortunes, enforce new ideas and lead change (Bass and Riggio, 2006; Fanelli et al., 2009; Khurana, 2002). They are able to promote their strategic vision for the organization, create and describe this vision, and encourage future-oriented, long-term thinking (Park et al., 2018). Having a highly reputed CEO serves to reduce uncertainty about a firm's future prospects (Boivie et al., 2016) and shareholders strongly believe that CEO reputation is an indicator of competence (Wade et al., 2006). Competent management is thought to be one source of sustainable competitive advantage (Gilley et al., 2009; Joyce et al., 2003; Waldman et al., 2001).

Task-oriented leaders continuously engage in transactions with their followers. Burns (1978) suggests that these transactions maximize organizational and individual gains as they occur in a fast and simple manner, which help organizations cope with the demands of the marketplace such as reciprocity, flexibility, and adaptability. There is empirical evidence that supports the relationship between transactional leadership and effectiveness in some settings (e.g. Bass and Riggio, 2006; Zhu et al., 2012). Effective CEOs need to be able to foresee events and plan ahead in today's fast-paced market environment. They also need to understand that each move they make leads to a counter-move by the competition. Therefore, they need to be skilled at making decisions and taking risks under time pressure (Gaines-Ross, 2000). As leaders play a huge role in strategy formulation and implementation, they can certainly place their marks on their organizations (Hambrick and Quigley, 2014). Therefore, we propose that:

Hypothesis 1. Task-oriented leadership skills have a positive impact on CEO reputation.

CEOs are known to have a strong influence on their work environment through routine interpersonal interactions (Drucker, 2012; Howkins, 2002). Relation-oriented leadership refers to leader behaviors and skills that facilitate positive interpersonal interactions. In our proposed model, we conceptualize relation-oriented leaders as those who are able to be credible, effective communicators to both internal and external constituencies, perceived as a role model, inspire and motivate their management teams, and engage with communities at large. Successful leaders are able to collaborate and develop partnerships with their stakeholders, respond to the expectations of customers, act as a mediator for the department, team, and subordinates. They speak for the team as a representative, take responsibility for the team's reputation, and protect team members. They analyze and monitor the external environment for potential risks or opportunities (Park et al., 2018). Being able to deliver necessary information that the stakeholders need and expect with confidence is the hallmark of a credible CEO in building favorable reputations (Jin and Yeo, 2011). CEO performance is constantly rated and measured against the performance of others. In order to survive such scrutiny and instill a sense of confidence in all stakeholders, it is CEO's duty to present the company in a good light. CEOs need to ensure that their company is perceived to be credible and 'best of their class' by peers and other industry watchers. Exceptional CEOs listen to both word-of-mouth and online talk of their companies and themselves. They are familiar with traditional and nontraditional channels that stakeholders access when forming their opinions of the company and the competition (Gaines-Ross, 2000).

Provision of stock options, bonuses, or modeling company values does not guarantee building leadership credibility and a winning team. It can only be realized if the management team is involved in strategic development and implementation as well as its participation in the company's direction. If stakeholders find the CEO credible and trustworthy, this in turn adds to the reputation of the CEO (Gaines-Ross, 2000; Jin and Yeo, 2011).

Empirical research that emphasize employee-centered leadership (Blake et al., 1962; Judge et al., 2004) and person-oriented leader behaviors (Bales, 1950) support the idea of relation-oriented leadership. In the similar vein, transformational leadership has been linked to CEO success (Jung et al., 2008), middle manager effectiveness (Singh and Krishnan, 2008), cross-cultural leadership (Kirkman et al., 2009), virtual teams (Hambley et al., 2007), personality (Hautala, 2006), and emotional intelligence (Barbuto and Burbach, 2006). Motivating employees, communicating effectively, and creating environments in which teams thrive are abilities that are positively related to leadership effectiveness (Carlisle and Murphy, 1986; Gilley et al., 2009). Hence, we suggest that:

Hypothesis 2. Relation-oriented leadership skills have a positive impact on CEO reputation.

Previous research suggests that relation-oriented leadership is generally favored over task-oriented leadership (McCleskey, 2014). Leading is closely related to influencing people to modify their behavior by providing direction and stimulating action. Leaders can shape and elevate the motives of their followers. While leadership generates empowerment, traditional management induces compliance (Jin and Yeo, 2011).

Papworth et al. (2009) finds that the readiness of followers increases when leaders become less dominant in their supervision styles. This shows us that as the readiness of followers increases, task-oriented behavior of the leader becomes weaker. Silverthorne (2000) and later on Silverthorne and Wang (2001) find that leaders who are more adaptive and flexible, are rated more successful than the ones that are perceived to be more rigid and traditional. Therefore, we expect a greater contribution of relation-oriented leadership skills to CEO reputation:

Hypothesis 3. Relation-oriented leadership skills have a larger impact on CEO reputation than task-oriented leadership skills.

Successful CEOs are those who are able to advocate and actually live their organizations' visions and values. They communicate their vision and strategy clearly, succinctly, and consistently to both internal and external constituencies (Gaines-Ross, 2000). Gilley et al. (2009) find that the abilities to motivate, communicate and build teams are proxies for leadership effectiveness. Effective leadership requires leaders to communicate clear, specific task goals and assignments. It is their duty to set a clear direction for employees' daily work, instill a clear sense of purpose, and give a clear explanation of task goal expectations (Park et al., 2018). In addition to employees, shareholders, analysts, customers, clients, lenders, and suppliers judge a company's viability and future performance through CEO communication and behavior. CEOs need to be skilled at identifying meaningful messages and determining the most effective communication channels to reach their intended audiences in a world where e-communications dominate. Once CEOs make strategic priorities clear inside the company, external communications will follow that portrays the company's goals and direction (Gaines-Ross, 2000; Jin and Yeo, 2011). Therefore, we believe that:

Hypothesis 4. Communication is a skill that has a role both for relation-oriented and task-oriented leadership.

Industry level effects pose to be a critical issue in corporate reputation studies. Models that do not control for industry tend to disguise structural industrial contexts as interactions between items usually vary across industries greatly (Blomgren, 2011). Industrial sectors face specific and localized pressures from different stakeholders (Melo and Garrido-Morgado, 2012). Jones (1999) studied public visibility and the degree of governmental scrutiny across sectors. He proposed that the primary sector industries to be more focused on environmental issues; the secondary sector on employees, suppliers, customers, the environment and communities; and the tertiary sector with employees and consumers. Industry structure is thought to play a role in explaining variations in CEO characteristics too (Datta and Rajagopalan, 1998). Industry context has been largely ignored in studying CEO reputation though. We have a very limited understanding of the role played by industry conditions in the formation of CEO reputations. Thomson (1967) has argued that firms choose leaders who are likely to succeed in dealing with critical contingencies including industry context. Similarly, Pfeffer and Salancik (1978) suggested that the organizational context dictates the selection of executives appropriate for coping with that context. Hambrick and Mason (1984) postulated that certain CEO characteristics for firm success are contingent upon industry conditions. Gupta (1988) also posited that utility drawn from CEO leadership characteristics to be contingent on organizational environments and organizational strategies. Therefore, we propose that:

Hypothesis 5. Industrial context matters when CEO and corporate reputations are concerned.

All of these proposed relationships are represented in *Figure 3.1*.

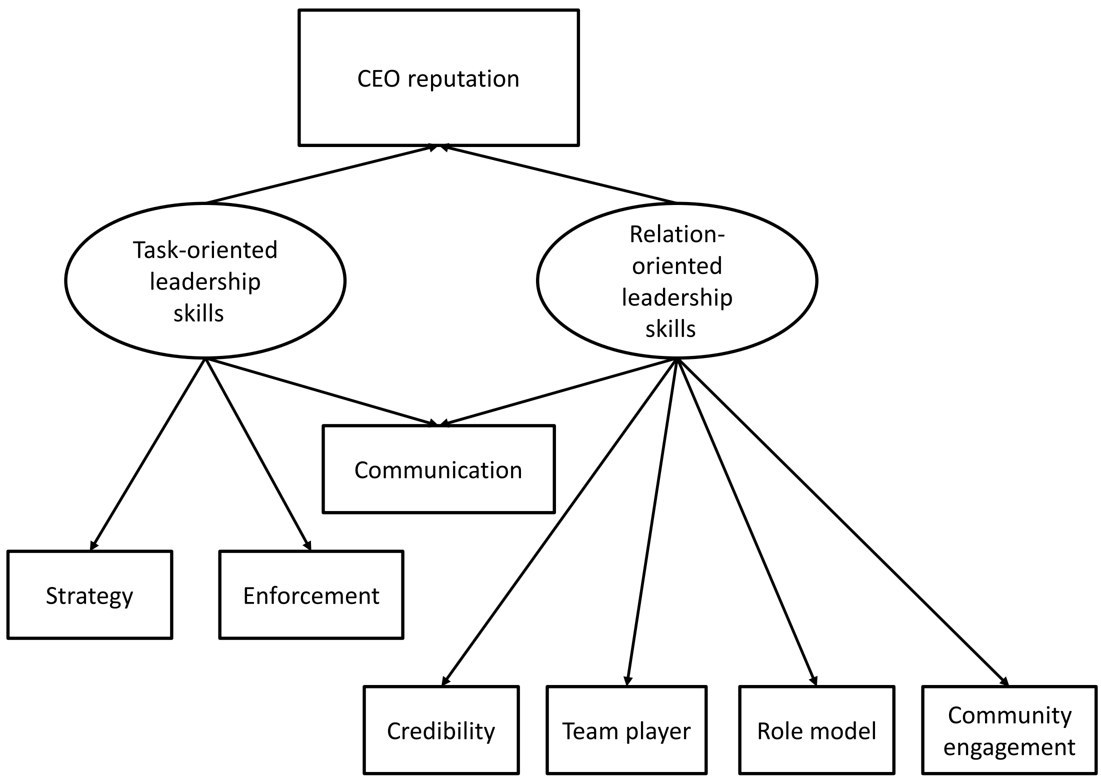

Figure 3.1: A conceptual model of CEO reputation

CEOs are one of the major contributors that characterize how firms are perceived by stakeholders. The upper echelon theory suggests that the firms are reflections of their leaders (Hambrick and Mason, 1984). Much like movie stars, who provide an indication of the future success of a movie for the audience, CEOs send signals to the market participants about the performances of companies. Their character and leadership style form a reputation for themselves, which is tied to their organization's reputation (Fetscherin, 2015). CEOs are becoming increasingly aware of this fact that their reputations evolve hand in hand with corporate reputation (Conte, 2018). Empirical research also supports that highly regarded CEOs are able to confer reputational benefits on their firms (Gaines-Ross, 2003; Graffin et al., 2012; Love et al., 2017). Hence, we suggest that:

Hypothesis 6. CEO reputation has a positive impact on corporate reputation.

Figure 3.2 illustrates this additional path we would like to assess in our empirical analysis.

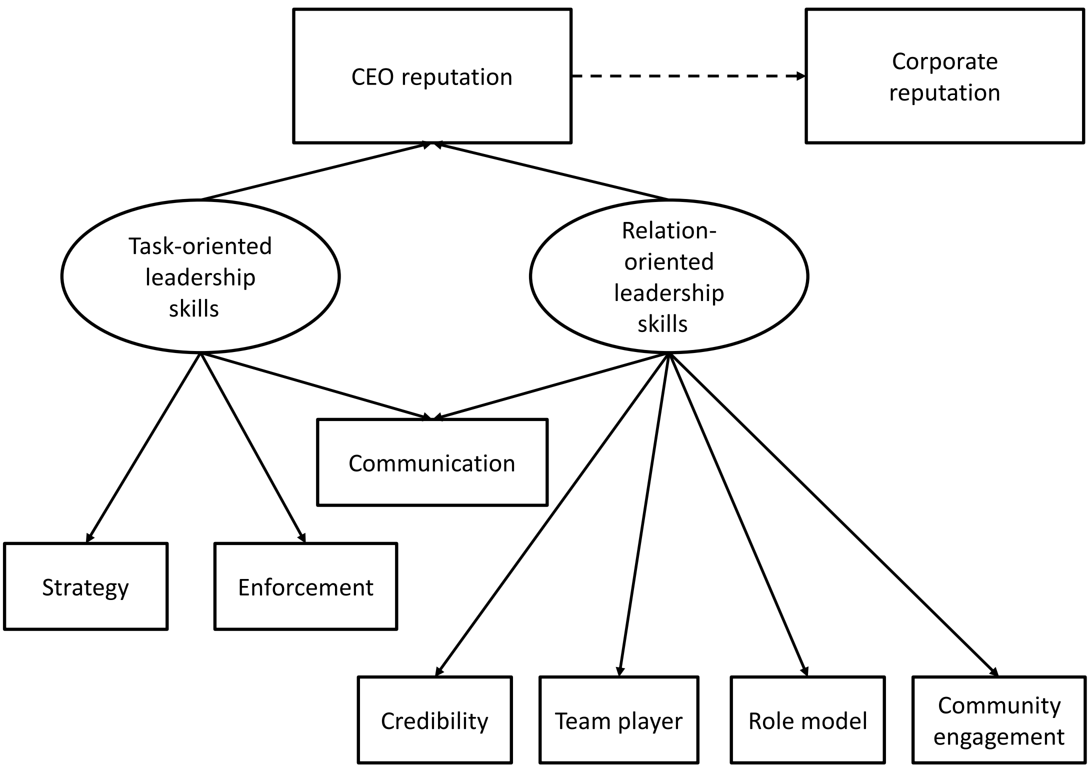

Figure 3.2: A conceptual model of CEO reputation and corporate reputation

3.5 Data and Methodology

We use the data originally collected for the German *Manager Magazin* surveys 'CEO Image' and 'Image Profile' containing the largest companies operating in Germany[2]. *Manager Magazin* is one of the most prominent business magazines in Germany and its indices are widely recognized besides Fortune Magazine. For many years now, *Manager Magazin* has been conducting surveys to measure corporate reputation and CEO reputation. However, over the years, the sample and methodology have evolved considerably. Therefore, in our paper we conduct a cross sectional study with the data collected in year 2013.

Table 3.1: Participant profile

Female	43%
University	89%
Top management	21%
Middle management	39%
Age group: 30-50	32%
Age group: Over 50	68%
Industry experience: 10-20 yr	19%
Industry experience: Over 20 yr	74%
	Obs. 1824

Participant profile is presented in *Table 3.1*. Among various industry experts that took part in the survey, 43% of them are female and 89% are university graduates. Top management and middle management constitute 21% and 39% of the sample respectively with 93% of all participants having 10 years or more industry experience. In total, we have 1824 participants.

Table 3.2: Data summary

Variable	Mean	Std. Dev.	Obs.
Strategy	6.68	2.13	17700
Enforcement	6.78	2.07	16833
Communication	6.03	2.20	17121
Credibility	5.95	2.34	17215
Team player	5.57	2.25	14167
Role model	5.78	2.39	16144
Community engagement	5.56	2.41	13619
Executive reputation	6.12	2.14	17509
Corporate reputation	6.30	2.13	22801

Notes. Ratings ranging from 0 (worst) to 10 (best).

[2] Please see Schwalbach (2015) for details.

In the survey, experts are asked to evaluate the CEOs that they know of in terms of their reputation and skills in strategy, enforcement, communication, credibility, being a team player and a role model, and community engagement. In the same survey, experts are in addition asked to evaluate the companies the CEOs work for. The scores range from 0 (worst) to 10 (best). Data summary is provided in *Table 3.2*. Whereas mean value of corporate reputation evaluations is 6.3, average CEO evaluations usually fall between 5.5 – 6.8 range. As exhibited in *Table 3.3*, corporate reputation, CEO reputation and its related dimensions posit high correlations ranging from 0.48 to 0.89. We usually observe this situation in other reputation rankings and databases too.

Table 3.3: Correlation matrix

Variable	1	2	3	4	5	6	7	8	9
1. Strategy	1								
2. Enforcement	0.8046	1							
3. Communication	0.7216	0.7009	1						
4. Credibility	0.7113	0.6396	0.7956	1					
5. Team player	0.5900	0.4780	0.7070	0.7875	1				
6. Role model	0.6821	0.5930	0.7669	0.8736	0.8284	1			
7. Community	0.5801	0.5259	0.7086	0.7464	0.7199	0.7852	1		
8. Executive rep.	0.7840	0.7102	0.8273	0.8898	0.7888	0.8897	0.8099	1	
9. Corporate rep.	0.6588	0.5869	0.6356	0.7056	0.5880	0.6775	0.6431	0.7604	1

Notes: All significant at 0.001 level.

We start by exploring the data with a factor analysis followed by a confirmatory factor analysis. We test the validity and reliability of our conceptual model with structural equation modeling (SEM). We utilize a step-wise structural equation analysis separating measurement and testing from structural analysis. This has been necessary due to strong relations between different dimensions. This approach has been adopted by many researchers in the literature (e.g., Fryxell and Wang, 1994).

SEM is especially superior to more traditional statistical approaches when we deal with latent variables. Our hypothesized model suggests that CEO reputation is dependent on two types of skills, which are latent variables: Task-oriented leadership skills and relation-oriented leadership skills. Task-oriented leadership skills are measured by 3 observed variables: Strategy, enforcement, and communication. Relation-oriented leadership skills are measured by 5 observed variables: Communication, credibility, team player, role model, and community engagement.

In our baseline model (*Model 1*) and the actual model, where additional significant covariances among items were included (*Model 2*), we apply listwise deletion in cases of missing values as our dataset is sufficiently large to achieve statistical power. In these two models, we utilize a maximum likelihood estimation methodology. In *Model 3*, we also make use of the observations containing missing values. In this approach (*MLMV* method in Stata), missing values are assumed to be missing at random (MAR), which is a term used to describe situations, where missing values are not just scattered completely at random throughout the data but if some of them are more likely to be missing than others, this can be predicted by the variables in the model. However, this method and previous maximum likelihood estimations in the first two models heavily rely on the assumption of joint normality of the observed variables. Therefore, for robustness, we also include a *Model 4*, where we relax this normality assumption (*ADF* method in Stata). This method generates a generalized method of moments (GMM) estimator which is asymptotic distribution free and it makes no assumption of joint normality or symmetry (Stata, 2011).

We examine the reliability of the proposed model using Cronbach's α, as presented in *Table 3.4*. α coefficients ranged from a low of 0.84 to a high of 0.94. Since the coefficients are considerably above the 0.70 threshold, there is strong evidence for scale reliability (Nunnally and Bernstein, 1994).

Table 3.4: Cronbach's α

Credibility	0.9244
Team player	0.9350
Role play	0.9218
Community engagement	0.9392
Communication	0.9391
Alpha for all items	**0.9450**
Strategy	0.8241
Enforcement	0.8383
Communication	0.8917
Alpha for all items	**0.8964**

Next, we run a first-order confirmatory factor analysis on the two-factor measurement model. Estimation results are presented in *Table 3.6*. We wanted to illustrate that the dimensions of the first-order model converged. The first-order confirmatory factor analysis produces a very good fit. We use a mix of fit indices to assess the goodness-of-fit following Hair *et al.*'s recommendation (2010): Along with Coefficient of Determination (CD), we report one incremental fit index (Comparative Fit Index, CFI), one goodness-of-fit index (Trucker-Lewis Index, TLI), and one badness-of-fit index (SRMR, Standardized root mean square residual).

CD for the system of structural equations measure the amount of variation accounted for in the endogenous constructs by the exogenous constructs. Values above 0.95 show a very good fit. A CFI and TLI above 0.90 indicate convergent validity. All SRMR values are less than 0.05 and indicate a good fit as well. Please note that for MLMV option in Stata, SRMR values are not reported due to missing data. *Table 3.5* presents all the fit indices and show that proposed models are robust.

Table 3.5: Confirmatory Factor Analysis Goodness-of-fit statistics

Model	1	2	3	4
CFI	0.981	0.996	0.996	0.982
TLI	0.968	0.989	0.988	0.945
SRMR	0.021	0.011	-	0.014
CD	0.992	0.993	0.993	0.994

CFI: Comparative fit index
TLI: Tucker Lewis index
SRMR: Standardized root mean square residual
CD: Coefficient of determination

χ^2 test statistic is the most commonly cited fit index in the literature and in our case it is significant. However, relying on this index posits problems when the data is not multivariate normal. Furthermore, it is very sensitive to sample size and also affected by the number of parameters in the model (Satorra and Bentler, 2001; Schmermelleh-Engel et al., 2003). In large samples, χ^2 tests almost always result with the rejection of the proposed model. In our analysis, p-values did not exceed 0.05. Yet, it is quite established in the literature that there can be inconsistencies among indices and having χ^2 as the outlier is common (Eagle et al., 2001). Hence, it is reasonable to conclude that we have a strong model fit.

Table 3.6: Confirmatory Factor Analysis (standardized)

		Model 1	Model 2	Model 3	Model 4
Measurement					
Task-oriented leadership →	Strategy	.9307	.9492	.9463	.9495
	Enforcement	.8728	.8541	.8486	.8565
	Communication	.3780	.3000	.2822	.3134
Relation-oriented leadership →	Credibility	.9286	.9465	.9463	.9531
	Team player	.8689	.8459	.8357	.8513
	Role play	.9446	.9271	.9245	.9324
	Community engagement	.8238	.8410	.8373	.8401
	Communication	.5454	.6135	.6207	.6054
Number of observations		11610	11610	18019	11610
χ^2		1511.23	292.91	438.84	156.42

Notes: All significant at 0.001 level. Constants are not reported.

3.6 Results

Using Stata Software, a structural equation model was fitted to the study item set, with 8 observed variables from the survey (7 dimensions of skills and overall CEO reputation) and 2 latent variables representing task-oriented leadership skills and relation-oriented leadership skills.

Table 3.7: Pooled SEM results (standardized)

		Model 1	*Model 2*	*Model 3*	*Model 4*
Measurement					
Task-oriented leadership →	Strategy	.9294	.9437	.9397	.9431
	Enforcement	.8727	.8578	.8552	.8615
	Communication	.3761	.2924	.2722	.3000
Relation-oriented leadership →	Credibility	.9288	.9363	.9347	.9457
	Team player	.8606	.8492	.8397	.8557
	Role model	.9412	.9373	.9359	.9421
	Community engagement	.8365	.8340	.8302	.8324
	Communication	.5468	.6231	.6340	.6207
Task-oriented leadership →	CEO reputation	.2415	.2363	.2483	.2391
Relation-oriented leadership		.7644	.7643	.7541	.7613
Number of observations		11447	11447	18226	11447
χ^2		2019.89	384.44	561.37	203.89

Notes: All significant at 0.001 level. Constants are not reported.

Table 3.7 presents our findings from the pooled data. Results support first 4 hypotheses. All path coefficients in all 4 models are significant at 0.001 level. Task-oriented leadership skills and relation-oriented leadership skills have a significant, positive impact on CEO reputation.

All 4 models provide comparable results. In the measurement part, for task-oriented leadership, largest factor loading comes from strategy (0.93-0.94) followed by enforcement

(0.86-0.87) and communication (0.27-0.37). For relation-oriented leadership, largest factor loading comes from role model (0.94) closely followed by credibility (0.93-94), which is then followed by team player (0.84-0.86), community engagement (0.83-0.84), and communication (0.55-0.63).

We observe that relation-oriented skills dominate task-oriented leadership skills in driving CEO reputation. This proves that in the European context, behaviors of the leader that contribute to the completion of tasks by organizing and directing the work of others through developing work schedules, organizing responsibilities and goals, and allocating resources are all important but being skilled in motivating employees, being credible and a role model, and creating environments in which teams thrive are even more important in determining CEO reputation. Path coefficients for relation-oriented leadership skills range between 0.75 and 0.76 providing the strongest contributor of CEO reputation and path coefficients for task-oriented leadership skills range between 0.24 and 0.25. These results suggest that firms should invest in relation-oriented CEO skills in training programs for highest reputational returns. *Table 3.8* shows that the proposed model fits the data very well with all indices on recommended levels: CFI = 0.98-0.99, TLI = 0.94-0.99, SRMR = 0.010-0.019, CD = 0.99.

Table 3.8: Goodness-of-fit statistics (pooled models)

Model	**1**	**2**	**3**	**4**
CFI	0.981	0.996	0.996	0.977
TLI	0.969	0.991	0.990	0.943
SRMR	0.019	0.011	-	0.015
CD	0.994	0.994	0.994	0.994

CFI: Comparative fit index — SRMR: Standardized root mean square residual
TLI: Tucker Lewis index — CD: Coefficient of determination

The support for our fifth hypothesis is somewhat limited. Associated estimation results are illustrated in *Table 3.9*. When we look at separate industries, we observe that a similar trend to the pooled model persists; only the magnitude of the path coefficients varies a little. The path coefficients are still positive and significant. Furthermore, in all cases relation-oriented leadership skills dominate task-related leadership skills. For instance, in *Retail* we observe that the path coefficient for relation-oriented leadership skills is 0.83 and the path coefficient for task-oriented leadership skills is 0.15 whereas in *Automotive* path coefficients are closer: 0.63 and 0.37 respectively. Similar to *Retail*, path coefficients for *Finance*, *Oil & Gas*, *Industrial Goods*, *Consumer Goods* are wide apart, path coefficients for relation-oriented leadership skills ranging from a low of 0.70 and a high of 0.83 and for task-oriented leadership skills a low of 0.18 and a high of 0.26. Magnitudes of the path coefficients for *IT & Communication* and *Pharmaceuticals* are comparable to that of *Automotive* and *Media* and *Transportation & Tourism* lie somewhere in between.

Previous empirical research posited a limited impact of industrial contexts on CEO reputation. Theoretically, we would expect that an increased degree of capital intensity would require a more traditional approach with greater emphasis on efficient asset management and cost control, a rigid production process and value efficiency-oriented, restricted range of competitive actions thus, task-oriented leadership. On the other hand, as the levels of industry product differentiation and growth opportunities increase; competition becomes more intense, which calls for managers to adapt and become more responsive to multiple stakeholder demands in different markets, hence, relation-oriented leadership (Datta and Rajagopalan, 1998). However, our results are somewhat mixed and we cannot deduce such conclusions.

Table 3.9: SEM results for separate industries (standardized)

	1	2	3	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Measurement										
F1 → Strategy	.9488	.9726	.9640	.9195	.9098	.9187	.9011	.9226	.9546	.9376
Enforcement	.9150	.8273	.8234	.8678	.9025	.7943	.8378	.8660	.8538	.7713
Communication	.3188	.2771	.2575	.3171	.3330	.1863	.2085	.2541	.5265	.3083
F2 → Credibility	.9473	.9442	.9490	.9303	.8978	.9270	.8936	.8912	.9595	.9427
Team player	.8488	.8709	.8847	.8185	.8406	.8221	.7997	.7950	.8606	.8204
Role model	.9461	.9422	.9432	.9168	.9240	.9348	.9087	.9231	.9024	.9287
Community engagement	.8727	.8299	8266	.7958	.8329	.8080	.8172	.7520	.8620	.8084
Communication	.6013	.6557	.6723	.5956	.5969	.6290	.6832	.5991	.4424	.5864
F1 → CEO reputation	.3689	.2083	.1823	.1476	.3007	.2056	.2590	.2747	.3323	.2887
F2	.6310	.7984	.8078	.8290	.6927	.7899	.7448	.7130	.6488	.7087
No. Obs.	2139	3092	1024	917	955	1396	480	514	293	637
χ^2	164.88	79.05	66.18	69.20	50.75	112.74	71.33	38.77	43.99	69.73

Notes: All significant at 0.001 level. Constants are not reported. F1 and F2 represent task-oriented leadership and relation-oriented leadership respectively. All models take Model 2 in the pooled estimations as basis. Industry classification: 1. Automotive 2. Finance 3. Oil & Gas 4. Retail 5. IT & Communication 6. Industrial Goods 7. Consumer Goods 8. Media 9. Pharmaceuticals 10. Transportation & Tourism

Table 3.10: Goodness-of-fit statistics (separate industries)

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
CFI	0.993	0.998	0.994	0.992	0.996	0.991	0.985	0.993	0.988	0.990
TLI	0.983	0.994	0.986	0.980	0.989	0.978	0.961	0.983	0.970	0.974
SRMR	0.012	0.011	0.011	0.018	0.011	0.014	0.021	0.017	0.023	0.020
CD	0.995	0.997	0.996	0.992	0.990	0.991	0.989	0.988	0.995	0.992

CFI: Comparative fit index
TLI: Tucker Lewis index
SRMR: Standardized root mean square residual
CD: Coefficient of determination

Goodness-of-it statistics again indicate a good fit. *Table 3.10* shows that the proposed models fit the data very well with all indices on recommended levels: CFI = 0.99, TLI = 0.96-0.99, SRMR = 0.011-0.023, CD = 0.99.

Next, we turn our attention to corporate reputation and we repeat the same analysis except for the newly added path in the direction from CEO reputation to corporate reputation as shown in *Figure 3.2*.

Table 3.11: Pooled SEM results (incl. corporate reputation, standardized)

		Model 1	***Model 2***	***Model 3***	***Model 4***
Measurement					
Task-oriented leadership	→ Strategy	0.9268	0.9395	0.9374	0.9424
	Enforcement	0.8687	0.8547	0.8543	0.8587
	Communication	0.3761	0.3111	0.3000	0.3432
Relation-oriented leadership	→ Credibility	0.9257	0.9446	0.9453	0.9513
	Team player	0.8559	0.8390	0.8323	0.8462
	Role model	0.9392	0.9233	0.9227	0.9332
	Community engagement	0.8305	0.8346	0.8342	0.8351
	Communication	0.5441	0.6012	0.6048	0.5762
Task-oriented leadership	→ CEO reputation	0.2440	0.2559	0.2647	0.2680
Relation-oriented leadership		0.7618	0.7455	0.7393	0.7318
CEO Reputation	→ Corporate reputation	0.7670	0 .8018	0.7949	0.8161
Number of observations		11,223	11,223	23,341	11,223
χ^2		2597.41	590.29	844.87	338.67

Notes: All significant at 0.001 level. Constants are not reported.

As presented in *Table 3.11*, all four models provide comparable results to the previous models and support *hypothesis 6*. Similar to the previous pooled SEM, in the measurement part, for task-oriented leadership, largest factor loading comes from strategy (0.93-0.94) followed by enforcement (0.85-0.87) and communication (0.30-0.38). For relation-oriented leadership though, largest factor loading comes from credibility (0.95) closely followed by role model (0.92-94), which is then followed by team player (0.83-0.86), community engagement (0.83-0.84), and communication (0.54-0.60).

In the structural part, again we observe that relation-oriented skills dominate task-oriented leadership skills in driving CEO reputation. Path coefficients for relation-oriented leadership skills range between 0.73 and 0.76 providing the strongest contributor of CEO reputation and path coefficients for task-oriented leadership skills range between 0.24 and 0.27. These results are again in support of focusing on relation-oriented CEO skills in training programs at firms. The new path also proves to be positive and significant in magnitudes ranging from 0.77 to 0.82.

Table 3.12 shows that the proposed models fit the data very well with all indices on recommended levels: CFI = 0.964-0.995, TLI = 0.906-0.987, SRMR = 0.014-0.025, CD = 0.994.

Table 3.12: Goodness-of-fit statistics (corporate reputation)

Model	**1**	**2**	**3**	**4**
CFI	0.977	0.995	0.995	0.964
TLI	0.966	0.987	0.987	0.906
SRMR	0.025	0.014	-	0.021
CD	0.994	0.994	0.994	0.994

CFI: Comparative fit index SRMR: Standardized root mean square residual
TLI: Tucker Lewis index CD: Coefficient of determination

We also look at separate industries to see if the impact of CEO reputation on corporate reputation differs from industry to industry. Again we observe a similar general trend to the previous industry analysis; only the magnitudes of the path coefficients slightly vary. The path coefficients are all positive and significant except for *communication* in the first part of the measurement for industries *retail* and *media*, which are insignificant.

Path coefficients that are shown in *Table 3.13* for the CEO reputation and corporate reputation path vary from a low of 0.64 to a high of 0.86. CEO reputation seems to have the largest impact on corporate reputation in *automotive*, *finance*, *retail*, *IT & Communication*, and *pharmaceuticals* industries. Again the results on *Table 3.14* indicate a great fit for our data.

Our conceptual framework explores how CEO reputations are formed and whether they also reflect on corporate reputations. Our results show that relation-oriented leadership skills dominate task-oriented leadership skills in forming CEO reputations and we also find that CEO reputation has a sizeable impact on corporate reputation.

This outcome has vital theoretical and practical implications. First and foremost, our research contributes to the limited literature on leadership in relation to corporate reputation. We shed light on the characteristics of great leaders and illustrate that firms can also benefit from highly reputed executives.

Table 3.13: SEM results for separate industries (incl. corporate reputation, standardized)

	1	2	3	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Measurement										
F1 → Strategy	0.9453	0.9709	0.9581	0.9156	0.9020	0.9129	0.8863	0.9256	0.9546	0.9346
Enforcement	0.9136	0.8207	0.8253	0.8639	0.8950	0.7961	0.8152	0.8649	0.8535	0.7716
Communication	0.3115	0.3537	0.2049	-0.3357§	0.5054	0.3112	0.3982	0.0191§	0.5545	0.3113
F2 → Credibility	0.9558	0.9505	0.9610	0.9417	0.9179	0.9401	0.8967	0.8830	0.9775	0.9450
Team player	0.8378	0.8619	0.8738	0.8003	0.8277	0.8194	0.7776	0.7927	0.8474	0.8130
Role model	0.9321	0.9311	0.9267	0.8991	0.8909	0.9196	0.8930	0.9316	0.8859	0.9224
Community engagement	0.8752	0.8279	0.8293	0.7997	0.8369	0.8151	0.8105	0.7503	0.8719	0.8029
Communication	0.6021	0.5961	0.7056	1.0681	0.4353	0.5167	0.5119	0.8105	0.4127	0.5802
Structural										
F1 → CEO reputation	0.4105	0.2250	0.1778	0.1326	0.3149	0.2780	0.3001	0.2519	0.3341	0.3160
F2	0.5892	0.7820	0.8147	0.8631	0.6784	0.7162	0.6996	0.7374	0.6610	0.6812
CEO reputation → Corporate reputation	0.8342	0.8091	0.7511	0.8414	0.8144	0.7752	0.7370	0.7440	0.8625	0.6415
No. Obs.	2,098	3,024	994	904	925	1,385	468	508	291	626
χ^2	223.85	155.80	84.05	81.96	36.65	200.91	114.98	58.48	44.06	133.58

Notes: All significant at 0.001 level unless stated otherwise (§ if p > 0.05). Constants are not reported. F1 and F2 represent task-oriented leadership and relation-oriented leadership respectively. All models take Model 2 in the pooled estimations as basis. Industry classification: 1. Automotive 2. Finance 3. Oil & Gas 4. Retail 5. IT & Communication 6. Industrial Goods 7. Consumer Goods 8. Media 9. Pharmaceuticals 10. Transportation & Tourism

Table 3.14: Goodness-of-fit statistics (incl. corporate reputation - separate industries)

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
CFI	0.992	0.995	0.993	0.992	0.998	0.985	0.974	0.990	0.990	0.979
TLI	0.978	0.988	0.983	0.978	0.994	0.962	0.934	0.975	0.975	0.947
SRMR	0.016	0.014	0.013	0.021	0.010	0.024	0.030	0.021	0.023	0.032
CD	0.995	0.998	0.996	1.008	0.991	0.990	0.988	0.991	0.999	0.991

CFI: Comparative fit index SRMR: Standardized root mean square residual
TLI: Tucker Lewis index CD: Coefficient of determination

With this result we add to the upper echelon theory by showing that firms are indeed reflections of their leaders, which is the major proposition of the upper echelon theory (Hambrick and Mason, 1984). Moreover, we illustrate how effective signaling processes unfold in a reputational context. Reputations of leaders may act as a signal of their competence in the market place, which invoke trust among stakeholders and in return they perceive firms' reputations and future prospects in a more positive light. Therefore, we suggest that CEO reputation is an important aspect of corporate reputation and should be an integral part of future corporate reputation studies.

Our results encourage an active management of reputations and have direct implications also for firms. We demonstrate that there is a shift in stakeholder perceptions and conventional leadership styles are not appealing anymore. Stakeholders tend to care more about a leader's relation-oriented skills; task-oriented skills are seen as a must-have but not a medium of differentiation any longer. Our results also imply that reputation may be operationalized as a tool to protect and defend competitive positions and also act as a deterrent for potential competitors who consider entry to markets in question.

We tried to point out the most important leadership skills in driving CEO reputation. How can organizations enhance these skills of their leaders? How should these skills be developed, measured, and rewarded? Nearly half of Fortune 1000 companies have reported their management development and training programs are outdated (Gilley et al., 2009). Designing leadership programs is not an easy task. Three main leadership theories approach leadership development differently. Situational leadership proposes either to match the leader to the situation or matching leadership orientation to the follower readiness. Therefore, it suggests that leadership development efforts should focus on task-oriented and relation-oriented skill deficits of leaders (Bass, 2008; Hersey and Blanchard, 1969). Transformational leadership is broader in the sense that transformational leaders reflect an integrated personality with a large set of values and self-concepts. Hence, it is quite questionable whether transformational leadership development can ever be possible since it cannot focus on specific, narrow skills (Bass and Riggio, 2006; Burns, 1978; McCleskey, 2014). Transactional leadership is usually perceived as the *traditional leadership* and there is not much guidance on transactional leadership development in the literature. This might be due to the fact that most leaders do not need development programs to engage in transactions with their followers. In the transactional leadership context, real-world examples and on-the-job training could help leaders develop their transactional leadership skills (Burns, 1978, McCleskey, 2014). Traditionally speaking, leadership development programs targeted specific set of skills and competencies trying to diffuse best practices. We need a more scientific approach in order to develop a more adaptive leadership capacity (Day, 2011; McCleskey, 2014). Our empirical results suggest that leadership programs and corporate trainings cannot dismiss task-oriented skills altogether but should focus more on relational elements that stakeholders care about. In this way, we have shown firms not only improve CEO reputations but also confer benefits on corporate reputations.

Even though there are not many comparative studies, there is evidence that suggests factors that affect reputational assessments vary dramatically across countries. Researchers believe these variations are rooted in sociocultural, legal, and institutional differences (Apéria et al., 2004; Gardberg, 2006; Soleimani, 2014). We deduce our conclusions through expert responses from the *Manager Magazin*'s surveys. Some researchers suggest that it is better to conceptualize and examine reputation as specific to a certain stakeholder group (Rindova et al., 2005; Mishina et al., 2012). In our case, our framework is more applicable with executives as the respondents. Only industry experts would truly be aware of and able to evaluate firms, CEOs and their characteristics. We believe that the fact that our respondents come from different backgrounds and industries at least provides us a potential for generalizability in the European context.

Our respondents evaluate CEO and corporate reputation at a single point in time. Even though reputation is a sticky variable that does not change dramatically from year to year, the next step would be to test the validity of our conceptual model by collecting longitudinal data across various stakeholder groups and different countries to see whether our results hold in different contexts with different audiences over longer time periods.

In our conceptual model, the items that measure unobserved task- and relation-oriented leadership skills were selected from previous leadership literature when the survey was conducted. There might be other potential items to correctly measure relation-oriented and task-oriented skills. Another potential research direction is the intangible nature of reputations and the question how CEO reputation and corporate reputation interact and affect business outcomes is certainly of interest.

Personal traits and situational contexts will continue to be important in the future. Large, purely transactional firms will lose to transformational ones as their leaders are more innovative, responsible, flexible, and adaptive (Bass, 2008). The field moves toward a more follower-centric, hybrid management approaches due to the high level of complexity of today's business environments (Bligh, 2011; Gronn, 2011; Marion and Uhl-Bien, 2011).

Research on CEO reputation is at its early stages and the field has yet to determine its antecedents and its relation with other individual-, firm-, and industry-level constructs, and how it interacts with corporate reputation (Graffin et al., 2012). With this paper, we attempt to fill this gap as we address how CEO reputation is formed and its interaction with corporate reputation in different industrial contexts. Hopefully, our work will lead to exciting avenues of future research.

3.7 Conclusion

The conceptual model we introduce for CEO reputation has one task and one relational component. Our results suggest that even though task component has a significant role, the relational component is the main driver of CEO reputation. Whereas the relational component is mainly driven by credibility and the ability to be a role model, the task component is driven by strategy. Our results also indicate that communication skills play a significant role both for task and relational components. We find that CEO reputation has a positive influence on corporate reputation and this influence might be stronger in some industries than others.

The global business environment has changed dramatically over the last few decades. New competitive landscape is forcing companies continually to evolve and adapt. In such a competitive landscape, reputation is an intangible asset that firms can utilize. Our research highlights the most important CEO skills and abilities necessary for a good reputation. We believe that interpersonal skills play a huge part in forming good reputations. A company's leadership controls all aspects of operations through all levels in constant contact with employees. Therefore, a leader has to be skilled at motivating, communicating and building a team that will thrive and lift up organizational performance as well as reputation.

People think of CEOs as 'saviors' and many believe they are extraordinary individuals. However, in leadership literature we struggle to identify the characteristics that make great leaders. Traditionally, firms have been trying to replicate 'best practices' but we need a more scientific and tailored approach to leadership. Our results put emphasis on the necessity of finding the right balance between traditional task-oriented approaches to leadership and relation-oriented leadership skills. CEOs need to be skilled strategists but reputation-building activities that facilitate team work and create a decent workplace deeply resonate with stakeholders. Leaders need to be credible, effective communicators to both internal and external constituencies, serve as a role model who inspire and motivate their subordinates, and effectively engage with communities in order to lead their companies in the ever-changing business environment of 21st century.

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Chapter 4

Reputation as an Intangible Corporate Resource and Its Tangible Benefits

Abstract: The purpose of this study is to explore the nature of the relationship between CEO reputation, corporate reputation, profitability, and market value. By taking a resource-based view (RBV) of the firm, we ground our work in stakeholder theory, signaling theory, and reputation literature. We argue that reputation is an intangible corporate resource and it has the potential to drive profitability and boost market value. Our conceptual model illustrates how past and current reputations drive market value through profitability, where we also account for controls that we expect to have a significant impact on profitability. In our empirical analysis, we utilize a structural equation modeling (SEM) approach. While doing that, we use the data from Image profile and CEO reputation surveys of Manager Magazin, which is a well-known business magazine in Germany. In addition to these surveys, we obtained related accounting and market data from Datastream. Our main results indicate that reputation has indeed tangible benefits for firms. Past CEO and corporate reputations contribute significantly in forming current corporate reputation and when controlled for other variables, a favorable corporate reputation significantly improves profitability of firms in our sample. Moreover, we find that whereas past corporate reputation makes both direct and indirect positive contributions to market value, current corporate reputation and past CEO reputation have an indirect but significant and positive impact on market value.

Keywords: *CEO reputation, corporate reputation, profitability, market value, intangible goods*

4.1 Introduction

In a global business environment of intense competition and economic slowdown, firms are in dire need of adopting business strategies that will help them in maintaining a superior competitive position (Lee and Kwon, 2017). Towards this goal, getting a grasp of key corporate assets that influence a firm's organizational performance is vital and can guide both scholars and practitioners understand how these assets help ensure short-term profitability and long-term survival of companies.

Hall (1992) argues that intangible corporate assets, such as reputation, are the most important determinants of organizational success. Over the last few decades, there has been a growing body of research in social evaluations and their effects on firms. Among these, one particularly popular research stream has indeed been reputation (Lange et al., 2011). Reputation can be defined as a collective judgment regarding the quality or capabilities of an actor or an entity of interest within a specific domain (Jensen et al., 2012; Lange et al., 2011). It is a key people-dependent intangible asset, which is judged externally by stakeholder groups and each group is entitled to its own version of corporate reputation (Hall, 1993).

Corporate reputation studies usually explore the impact of reputation on performance, indicating firm reputation is an asset that can be exploited for better organizational performance (Ang and Wight, 2009). Some of many strategic benefits of a good reputation can be listed as lowered firm costs (Deephouse, 2000; Fombrun, 1996); the firms' ability to charge premium prices (Deephouse, 2000; Fombrun and Shanley, 1990; Fombrun, 1996; Rindova, et al., 2005); the firms' capacity to attract talent (Fombrun, 1996; Turban and Greening, 1997), investors (Srivastava et al., 1997), and customers (Fombrun, 1996); increased profitability (Roberts and Dowling, 2002); and deterring competitors by creating entry barriers (Deephouse, 2000; Fombrun, 1996; Milgrom and Roberts, 1982). In addition, stakeholders are more likely to engage in contracts with highly reputed firms (Deephouse, 2000; Rhee and Haunschild, 2006). Therefore, we argue that in a business context, reputation is a valuable and intangible corporate asset that has an influence on business outcomes such as organizational performance (e.g. Deephouse, 2000; Rindova et al., 2005). As a consequence, due to presence of economic rents earned on reputation, there are strong incentives for firms to maintain and invest in their reputations.

Potential benefits of a favorable reputation have been extensively studied in management research. Yet, most of these studies focus on the effect of one type of reputation on one or more specific firm outcomes. Whereas this approach has helped us begin to comprehend the impact of reputation across various settings and outcomes, it does not account for the existence of multiple reputations that collectively influence a given firm outcome (Boivie et al., 2016). Beside corporate reputation, another type of reputation that has the potential to influence firm outcomes is CEO reputation. CEOs are the faces of firms and their decisions shape corporate strategy that ultimately lead the firms to success or their demise (Carpenter et al., 2004; Nohria and Khurana, 2010; Yukl, 2013). Boards often seek CEOs that can act as "corporate saviors" and revitalize organizations through their leadership skills and strategic competence (Khurana, 2004). Some even attain "celebrity" status through media attention (Hayward et al., 2004; Wade et al., 2006). Stakeholders perceive CEOs as the human force behind their firms' actions and outcomes (Finkelstein et al., 2009). This perception is shaped by the perceived quality of leaders. However, there is an inherent uncertainty when the qualities of individuals or organizations are concerned. Since reputations represent a collective judgment, an actor's reputation is thought to be an important indicator of perceived quality (Boivie et al., 2016). In managerial research, the upper echelon theory suggests that the firm is a reflection of its leaders (Hambrick and Mason, 1984), which also supports the perception that leadership together with corporate reputation is the driving force behind organizational outcomes (Nohria and Khurana, 2010; Yukl, 2011).

Whereas research on reputation at the firm-level is rich and well established, CEO-level reputation within the firm has received less attention in comparison (Graffin et al., 2012). There are many studies that focus on how corporate reputations are built and maintained but how CEO reputation is related to corporate reputation has not been widely studied (Graffin et al., 2012; Love et al., 2017). Furthermore, even though a resource-based view (RBV) of the firm is widely discussed, intangible resources and their impacts on firm performance are relatively scarce in empirical research (Ang and Wight, 2009; Barney, 1991).

In this vein, we take the first step towards building theory with supporting empirical evidence for the benefits of intangible corporate assets. Our work contributes to reputation literature by being among the first to combine quantified CEO and corporate reputations and investigate how these reputations affect each other and whether together they play a role in boosting financial performance and business value.

By taking a resource-based view of the firm, we build our conceptual model around the literature in stakeholder theory, signaling theory, and reputation. Our model implies that highly reputed, prominent CEOs may have an impact on the perceptions of their firms and in turn the firms may also confer benefits on their CEOs. Our model further implies that favorable CEO and corporate reputations may lead to direct and indirect tangible benefits for firms.

In our analysis, we use the data from Image profile and CEO reputation surveys of *Manager Magazin*. In addition to this database, we make use of *Datastream* for control variables and financial performance metrics in our calculations. In order to test the existence of the relationships we propose in our conceptual model, we apply a structural equation modeling approach and our results indicate that reputations affect one another and have indeed tangible benefits for firms. We find that past CEO and corporate reputations are two major contributors in forming current corporate reputations and when controlled for other variables, a favorable corporate reputation significantly improves profitability of firms in our sample. Moreover, we find that whereas past corporate reputation makes both direct and indirect positive contributions to market value, current corporate reputation and past CEO reputation have an indirect but significant and positive impact on market value.

These findings are of great significance as they shed light on the importance of intangible corporate assets and help improve firms' competitive positions in a given economic context. With this work, we also contribute to one of the central discussions in management research concerned with both leadership and corporate reputation in relation to organizational performance and value creation.

The rest of the paper is organized as follows: *Section 4.2* provides an overview of our conceptual framework and presents our hypotheses, followed by *Section 4.3*, where we introduce our dataset and methodology. *Section 4* demonstrates our results and *Section 4.5* underlines the implications of our research, comments on the limitations of the obtained results and avenues for future research. Finally, with *Section 4.6* we conclude.

4.2 Conceptual Framework

The theoretical constructs in our conceptual model are largely grounded in a resource-based view of the firm (Penrose, 1959; Wernerfelt, 1984), stakeholder theory (Freeman, 1984), corporate reputation literature (e.g. Fombrun and Shanley, 1990; Fombrun, 1996), and signaling theory (Spence, 1973).

The RBV proposes that firms have the ability to sustain competitive advantage through intangible resources, which cannot be imitated or bought by competitors as they are rare and non-transferable (Barney, 1991; Grant, 1991; Penrose, 1959). Over the course of this field, brands, reputations, innovation capabilities, human capital, trade contracts, procedures and processes, organizational culture, suppliers and distributors are some of the intangible resources identified by researchers (Fombrun, 1990; Fombrun and Shanley, 1990; Hall, 1992; Wernerfelt, 1984).

Even though the RBV is widely discussed, intangible resources and their impacts on firm performance are scarce in empirical research. This scarcity may be largely attributed to the fact that intangible resources are tacit, which makes them hard to quantify and manage. Hence, it is usually a challenge to collect this kind of soft data (Cho and Pucik, 2005). Nevertheless, management of intangible resources is an imperative as they are sources of competitive advantage for firms due to their inimitable and non-transferable nature (Ang and Wight, 2009; Barney, 1991). Consequently, there have been a number of recent studies attempting at quantifying reputational impact as well as its dimensions and drivers (e.g. Berens and van Riel, 2004; Fombrun et al., 2015; Helm, 2005; 2007; Hildebrandt, et al., 2010). In most of these analyses, however, due to lack of a regularly collected company and/or industry specific data with time series character, usually aggregated rankings such as the Fortune Reputation Index are used (Hildebrandt, et al., 2010).

As well as measurement, the definition of the construct is a challenge and a source of heated debate in the literature. Following from Fombrun (1996), in our analysis, we define corporate reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals", indicating that corporate reputation builds on the perceptions of stakeholders and differentiates a firm from its competitors in the market place. Similarly, Rindova and Martins (2012) propose that social-constructionists see corporate reputation as an aggregate set of perceptions of different stakeholder groups and note that the sources of these perceptions may be varied and many of them are not considered as "valid signals" within the confines of traditional economic theory. Signaling theory (Spence, 1973) builds on information economics and explores the interactions of market participants under information asymmetry and uncertainty. In order to give an indication of product quality and other capabilities, sellers send signals to buyers through strategic actions such as prices, warrantees, and return policies in the market place (Basdeo et al., 2006). In a broader sense, firms attempt to shape stakeholder perceptions by sending out signals (van Riel, 2012). Yet, these are not the only signals stakeholders receive. Their perceptions on corporate reputation are further shaped through traditional media outlets (Mason, 2014), social media (Fan et al., 2013), friends and competitors (Fombrun et al., 2015). In a business environment such as this, corporate strategy should aim at aligning stakeholders with the goals of the organization by using multiple communication channels (Fombrun et al., 2015; van Riel, 2012) so that stakeholders can build a sense of trust in the company (Srivastava and Chakravarti, 2009).

Research also confirms that leadership has a crucial role to play in conveying signals to market participants. Appealing leaders manage to attract positive media coverage and investor endorsements, thus, signaling the credibility of the company's activities, building a name for themselves, and enhancing confidence and trust in the company among stakeholders (Fombrun et al., 2015; Westphal and Deephouse, 2011). Once this sense of trust is earned, reputation becomes a valuable and rare intangible resource, which is hard to imitate or transfer and eventually leads to a sustained competitive advantage (Deephouse, 2000; Roberts and Dowling, 2002) and stakeholder management as an essential part of corporate strategy (Fombrun et al., 2015; Freeman, 1984). Since the root of a company's overall reputation is the perceptions of its stakeholders (Newburry, 2010) and each group of stakeholders responds to different set of signals or informational inputs (Prabhu and Stewart, 2001; Spence, 1973); we advocate an active management of reputations as it is essential for the survival of a firm in today's highly competitive and globalized business environment.

Now that we have established the theoretical underpinnings of our study, we turn our attention to building our hypotheses next. Please note that all the proposed relationships in our paper are represented in *Figure 4.1*.

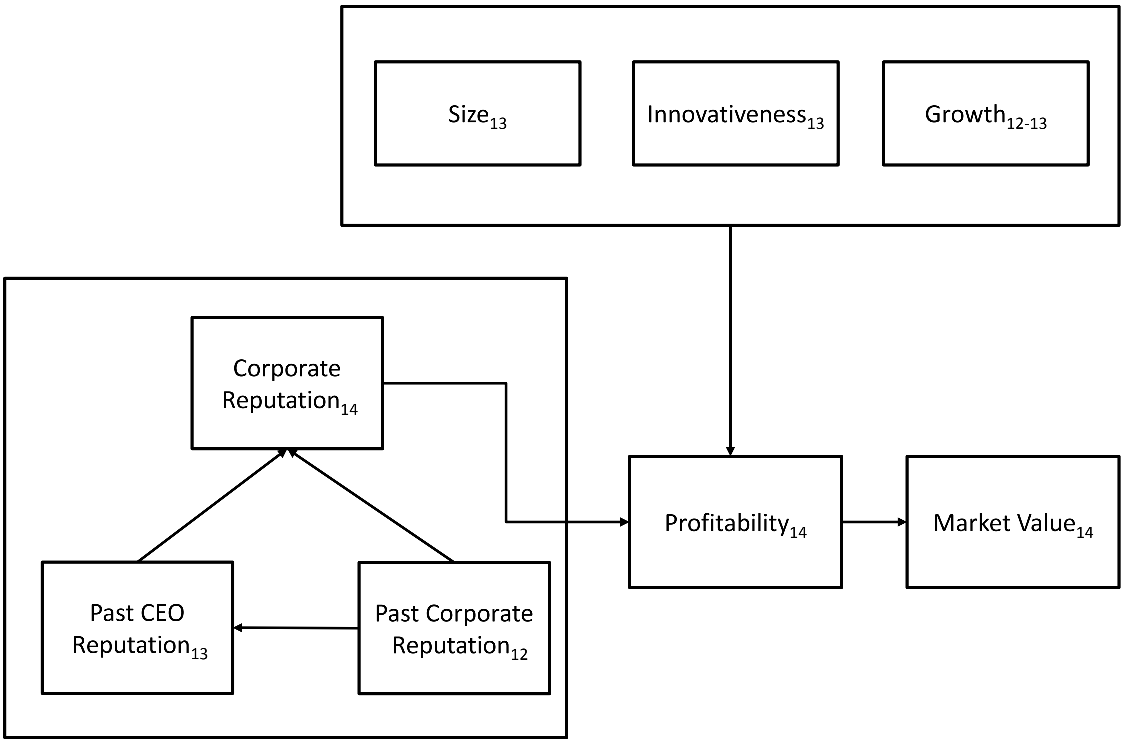

Figure 4.1: A conceptual model of reputation and organizational outcomes

4.2.1 Stickiness of reputation

Reputation is known to be easily damaged (Hall, 1993). It is observed that an intentional or accidental short-term action may have a drastic impact on a firm's reputation (Fombrun and Shanley, 1990; Vergin and Qoronfleh, 1998). If the firm actively manages its reputation through the use of a unique set of skills driven from its core strategic competencies (Fombrun, 1996), it will have the ability to rectify a negative event and the subsequent impact of this event may actually be neutralized (Ang and Wight, 2009). In order to circumvent the negative impacts of such events and build trust among their stakeholders, firms may use reputation building practices such as customer and investor relationship programs through which they communicate their financial health and the quality of their products and services (Fombrun, 1996). Sobel (1985) proposes that a firm can be deemed credible so long as it provides accurate information in a consistent manner. Therefore, one can claim that a favorable reputation requires close monitoring and long-term commitment.

Accordingly, in reputation research it is established that it takes time and effort to build reputations. Consistency of a certain level of firm performance and its communication are also crucial in maintaining good reputations (e.g. Ang and Wight, 2009). Reputations are aggregated information formed by perceptions of different stakeholders (Boivie et al., 2016) and many studies provide empirical evidence that whether they are positive or negative, they are enduring (e.g. Ang and Wight, 2009; Kraatz and Love, 2006; Roberts and Dowling, 2002; Vergin and Qoronfleh, 1998).

This phenomenon can be explained from a micro-cognitive perspective, which suggests that the stability of reputations roots in the cognitive inertia of external stakeholders (Ravasi et al., 2018). Scholars from this school of thought argue that reputational judgments are contingent upon the past and prior beliefs shape how things are perceived and interpreted (Bitektine, 2011). Similarly, Barnett (2014) suggests that when an individual encounters a piece of information about an organization for the first time, this piece of information will 'anchor' prospective judgments as new information is realized later on. Yet, research has also proven that cognitive inertia can be overcome and reputational judgments may be changed amid corporate wrong-doing (Mishina et al., 2012). However, to our knowledge, during the given timeframe within our small sample of firms, there have been no unexpected shocks or illegitimate corporate behavior, therefore we will treat reputation as a sticky asset and suggest:

Hypothesis 1. In the absence of shocks, current reputation is largely determined by past reputation.

4.2.2 CEO reputation and corporate reputation

In some instances, stakeholders might find it difficult to evaluate product quality prior to purchase. In such instances, they might use inputs and/or the quality of the productive assets of a firm to assess the final quality of a product. Since the inputs that an organization uses in its production processes affect the quality of products, these could be perceived as a signal for product quality and firm capability by market participants (Barney, 1991; Moran and Ghoshal, 1999; Rindova, et al., 2005). Quality of the management is one of the productive assets that the firm utilizes in the production process. People see leadership as the driving force behind organizational outcomes (Nohria and Khurana, 2010; Yukl, 2012), which is also supported by the upper echelon perspective in managerial research that suggests that the firm is a reflection of its leaders (Hambrick and Mason, 1984).

Research proves that managers differ in their abilities (Goldfarb and Yang, 2009). Capable leaders are able to act as catalysts for generating admiration and trust with stakeholders (Flatt et al., 2013). Star CEOs are perceived to be high-performers and shareholders tend to discount a single piece of negative information that would be inconsistent with this perception (Boivie et al., 2016; Wade et al., 2006). Furthermore, it is also shown that firms whose CEOs receive more media coverage reap reputational benefits. Capable leaders gain recognition and enjoy better media coverage and attract investors that send a signal to all stakeholders about the credibility of the company, which in turn increases trust in the company and help building corporate reputation - an important indicator of a firm's overall quality (Fombrun, et al., 2015; Love et al., 2017). This implies that highly regarded CEOs are able to confer reputational benefits on their firms (Gaines-Ross, 2003; Graffin et al., 2012).

Even though the question how executives influence corporate reputations has received little theoretical or empirical attention (Love et al., 2017), CEO and corporate reputations are often considered together and assumed to influence one another (Bendisch et al., 2013). There have been a number of studies that address this relationship. For instance, Burson-Marsteller (2006) finds that 47 percent of the public's opinion about a company roots in the reputation of the CEO and in Germany this number might be as high as 77 percent (Schwalbach, 2015). CEOs' positions in public issues and causes they hold dear also speak to the stakeholders and have repercussions for their firms too. In a recent paper, Hambrick and Wowak (2018) argue that in response to an episode of CEO activism, stakeholders form psychological reactions to the CEO's actions. They find that if stakeholders are ex ante predisposed toward the CEO's public stance, they will be proud of their affiliation with the company and as a consequence, will be highly identified with the firm too. On the other hand, if stakeholders cannot relate to the public stance of the CEO, the firm will get hurt in return too.

As much as CEOs drive organizational reputation, some scholars also believe that corporate reputation drives CEO reputation. A sustained superior performance or organizational ability to deliver quality is a key antecedent to corporate reputation and likely to be related to executive reputation too (Graffin et al., 2012). These scholars argue that organizational quality and CEO quality are usually both judged by organizational performance (e.g. Finkelstein et al., 2009), which leads to the expectation that these two reputations may converge over time. However, there may also be times that these two reputations diverge since average CEO tenure is quite low in comparison to companies' decade-long existences. This usually results in performance information being weighted more heavily for executives and since executive reputation is developed over a shorter time horizon, it is less stable in the sense that new information that is inconsistent with an executive's reputation may become more salient than it would be for a company that has developed its reputation over a much longer time. Yet, under normal circumstances, organizational-level and executive-level reputations are expected to converge and co-evolve over time (Charan, 2005; Graffin et al., 2012).

Our study has a short time frame and hence, method wise we do not have the ability to test for the existence of such a convergence or divergence but we argue that within the confines of our study, CEO reputation and corporate reputation measured at different points in time will chronologically affect each other and together they will endure. Therefore, we propose:

Hypothesis 2. CEO reputation is positively affected by past corporate reputation and corporate reputation is positively affected by past CEO reputation.

4.2.3 Corporate reputation and profitability

Amid recent corporate scandals, corporate reputation has been gaining traction in contemporary marketing and management literature as well as managerial practice (Hildebrandt, et al., 2010). Corporate reputation matters for numerous reasons. The link between reputation and sustained competitive advantage is widely accepted in the literature (Fombrun, 1996; Fombrun and Shanley, 1990; Hall, 1993; Roberts and Dowling, 2002). Furthermore, researchers have constantly found a positive relationship between reputation and financial performance (Brown and Perry, 1994; Deephouse, 2000; Fombrun and Shanley, 1990). While Gibson et al. (2006) nominate reputation as the single most valued asset of an organization; Hall (1993) shows that CEOs have identified corporate reputation as the most important key intangible resource. Even though it is not directly observed, corporate reputation is an important concern in strategic planning at a given company since it serves as an assessment of the company by multiple stakeholder groups (Hildebrandt, et al., 2010). Moreover, in today's highly competitive global markets, reputation has been playing a crucial role for sustainable competitive positioning (Abimbola and Vallester, 2007).

Good corporate reputations have an impact on stakeholders' decision-making processes (Frooman, 1999) and enable firms build closer relationships with their stakeholders (Shapiro, 1983). This is a scarce resource and hard to imitate (Bergh et al., 2010). Scholars therefore, argue that a superior reputation should be critical to financial performance and long-term competitiveness (e.g. Raithel and Schwaiger, 2015). A good reputation is a reflection of the good faith of market participants in superior quality and reliability of the firm's products and services, which in turn has a positive impact on customer satisfaction, loyalty, and willingness to pay premium prices (Rao et al., 2004). Moreover, firms with good reputations attract and retain talent in the recruiting market, which enables firms suppress fluctuations in the work force and increase efficiency through lower wages and higher employee motivation (Roberts and Dowling, 2002). Furthermore, a good reputation in supplier markets helps firms shrink negotiation costs, contracting costs, and monitoring costs (Bergh et al., 2010). We therefore, hypothesize that:

Hypothesis 3. The higher the corporate reputation, the greater the profitability will be.

In our conceptual model we also include some controls that could potentially affect profitability. Firm size is one of these controls but empirical evidence for the impact of firm size on profitability is mixed. Theories of the firm also suggest conflicting predictions on the relationship between profitability and firm size. On one hand, technological theories of the firm propose that large firms enjoy economies of scale through spread of lumpy fixed costs over large output volumes, which decrease average cost of production and increase return on capital invested (Becker-Blease et al., 2010). On the other hand, organizational theories claim that as organizational size increases, associated transaction costs (Williamson, 1985), agency costs (Jensen and Meckling, 1979), and span of control costs due to diversification and additional administrative layers increase (Lamont and Polk, 2002). We believe these two theories may be competing and one might dominate or cancel out the other in a given situation. Therefore, we will include firm size in our conceptual model as a control.

In this particular study, we treat innovativeness along with reputation as capabilities that cannot be easily imitated or transferred. There seems to be a general consensus in the management literature that inimitable intangible resources such as innovativeness and creativity as well as reputation are the key drivers of competitive advantage (Cho and Pucik, 2005). Innovativeness is an important firm asset and can be defined as the potential to apply knowledge to produce new knowledge (Drucker, 1993; Fang et al., 2011). There is anecdotal evidence and empirical support for the benefits of being perceived as innovative for business success (e.g. Buzzell et al., 1987; Cho and Pucik, 2005; Nonaka and Takeuchi, 2007). Hence, we would expect the higher the innovativeness, the greater the organizational performance will be.

In many studies, profitability and growth are both used as overall performance measures and their relationship is not really explored (Cho and Pucik, 2005). There are reports that profitability and growth positively affect shareholder value without differentiating between the two (e.g. Varaiya et al., 1987). There have been a number of recent studies that investigated the impact of sales growth on profitability and some of these studies report a positive relationship (e.g. Kodongo et al., 2015) whereas others report no relationship between the two (Dang et al., 2019). We speculate growth is a factor that drives profits and through realized profits capital market rewards growth; therefore, we include it in our conceptual model as a control.

4.2.4 CEO reputation and corporate reputation in relation to market value

Market value of a firm signals its overall health and operational market power. It is a traditional indicator, which is perceived as an operational barometer used to allocate strategic corporate resources under uncertain market conditions. When evaluating corporate performance, the market value approach combines the accounting value of firms with their financial valuation in the market. This combination encompasses the overall economic value of a firm's collective assets (Sandner, 2009). Market value not only accounts for tangible and intangible assets but also a firm's ability to generate positive cash flows into the future. It is argued that the market value of a firm delivers scholars a superior measure of real economic performance by capturing the most valuable aspects of the firm (Hirschey, 1985).

In management research, there seems to be a general consensus for the crucial role of corporate reputation in enhancing market value. Deephouse (2000) proposes that corporate reputation facilitates value creation through signals sent to current and potential exchange partners including employees, customers, suppliers, and investors. Benefits of a good reputation determine the competitive positioning of a firm and may influence many shareholder value drivers such as the cost of capital, revenue, and operating margins (Rappaport, 1998). It is also shown that the firms with more favorable reputations have the capacity to attract a greater number of investors (Srivastava et al., 1997) since they believe that reputed companies have stronger prospects for growth. As there are more and more investors willing to buy and hold the firms' stocks, access to capital is facilitated and the firms are deemed reliable and credit worthy. This also enables firms to charge higher issue prices (Beatty and Ritter, 1986; Raithel and Schwaiger, 2015; Sobol et al., 1992).

Leadership has been one of the most productive and interdisciplinary research domains in organizational sciences but has been consistently questioned for its role in organizational performance and value creation. Traditional economic theory has only assumed a limited role of executives in forming corporate policies (Bertrand and Schoar, 2003; Peterson et al., 2003). Earlier empirical work in 70s had proposed that leadership had little to do with performance at most accounting for 10% of performance variability among companies (e.g. Salanick and Pfeffer, 1977) and subsequent work in 80s concluded on the basis of these earlier results that leadership was insignificant, where organizational performance was concerned (e.g. Brown, 1982; Meindl et al., 1985). However, Thomas (1988) argued that these earlier studies suffered from problems in conceptualization and measurement and he further proposed that whereas leadership may not account for much variation across firms, it could account for much of the variance within firms which could be as much as 50%. Today, after much debate, even though value creation still strictly relies on the quality of products and services offered by companies, there is acceptance that individual CEOs exert considerable influence over entire enterprises (Charan and Colvin, 2000).

Agency models (Gibbons and Murphy, 1992) suggest that an employee's reputation serves as a source of motivation and discipline since it is a signal of employee quality that informs potential employers in the job market. CEO reputation is an estimation of CEO ability established in the job market. Initially CEO ability is unknown to the market but as information related to firm performance is revealed, the estimation of CEO ability becomes more precise and converges to the true underlying ability of the CEO. It is expected that CEOs will seek to align their actions with stakeholder interests in an attempt to preserve their reputations in the executive labor market (Koh, 2011).

CEOs are also responsible from the allocation of precious corporate resources and 'efficient contracting' hypothesis predicts a positive association between CEO reputation and wealth effects of corporate capital investments. In this framework, CEOs build up their reputations over time through repeated interactions with capital market participants and these interactions enable capital market participants to make inferences about the personal traits of CEOs and in turn make inferences about the company too. Hence, CEO reputation becomes a mitigator when problems arise due to information asymmetries between the firm and market participants (Fama, 1980). In contrast, managerial opportunism argument and rent extraction hypothesis both predict that the wealth effects of capital investments are negatively associated with CEO reputation and highly reputed CEOs might prioritize their own careers over firm performance and focus on short-term personal gains (Jian and Lee, 2011; Malmendier and Tate, 2009). As they are under constant pressure from capital markets, in order to protect their reputations, they might engage in rent-seeking behavior and may destroy firm value in the long-run (Graham et al., 2005).

Prestigious R&D investments help maintain a certain innovative image, which builds toward a favorable corporate reputation. However, R&D investments are typically considered to be riskier than capital expenditures (Bhagat and Welch, 1995; Kothari et al., 2002). It is generally thought that CEOs are directly responsible from the risk composition of the firm. Yet, the nature of the relationship between CEO visibility (or reputation) and the risk appetite of CEOs has no decisive conclusion in the empirical literature (Driver and Guedes, 2017). Some scholars propose that there is a 'dark side' to highly reputed CEOs. Hayward and Hambrick (1997) posit that through media attention, CEOs might become overly optimistic in their strategic abilities and frequently engage in suboptimal investment decisions. With increased attention, CEOs tend to develop hubris over time, which means they are likely to overestimate a firm's available resources (Shane and Stuart, 2002) or underestimate the uncertainties faced by the firm (Hayward and Hambrick, 1997). For instance, Liu et al. (2016) show that CEOs, who receive more media attention suffer from hubris resulting with the tendency to engage in risky behavior and make more R&D spending. Often CEOs with prominent media profiles are believed to be more likely to prioritize their own success above their companies (Collins, 2016) and more likely to be charged with misusing company resources and/or evading regulations (Hamilton and Zeckhauser, 2004). Similarly, Malmendier and Tate (2005) show that overconfident CEOs over-invest when they have high internal funds but reduce investment when they require external funding as they view it disproportionately costly. This behavior leads to a distortion in overall corporate investment decisions. As Fombrun (1996) calls it the 'burden of celebrity', reputed CEOs may have personal incentives to engage in myopic behavior in order to protect their own reputations at the expense of firm value. They may try to enhance their career and distract themselves by sitting on various boards and writing memoirs (Malmendier and Tate, 2009). On the other hand though, Shemesh (2017) finds that award-winning CEOs tend to become more riskaverse and he argues that once CEOs attain a higher status, they have an incentive to conform and may forego profitable investment opportunities.

We propose that reputable CEOs would have more to lose in terms of credibility and future compensation when their companies systematically engage in negative net present value projects. Therefore, highly reputed CEOs, who have earned the trust of market participants, been awarded for their outstanding performances, and enjoy wide media coverage, are expected not to indulge in myopic behavior and engage in rent-seeking activities to boost short-term earnings. Also they would not need to engage in such behavior as they can tolerate short-term fluctuations in firm performance thanks to their favorable reputations (Jian and Lee, 2011; Koh, 2011). Jian and Lee (2011) propose that CEO reputation is one of the major determinants of the credibility of information signals relating to announcements of capital investments. Their results indicate that the stock market's responses to announcements of capital investments are more favorable for firms with more reputable CEOs. They further find that highly reputed CEOs display significantly better post-investment operating performance improvements.

CEOs also play an important role in determining how internal and external audiences evaluate and respond to a company. Expectedly, such an influential actor will also have an impact on brand value as well as shareholder value since CEO reputation serves as a mental shortcut to corporate perceptions and differentiate a company from others in the competitive landscape. A favorable CEO reputation facilitates crisis management, help attract and retain talent, and investors are more willing to invest in companies with CEOs who possess proven professional skills and personal attributes (Bendisch et al., 2013; Gaines-Ross, 2000). D'Aveni (1990) proposes that managerial prestige adds to organizational legitimacy and performance. In their work Agarwal et al. (2011) investigate UK companies and demonstrate that reputed managers are associated with lower cost of equity and improved firm performance. Additionally, employment of reputable CEOs signals stakeholders that the executive is of high quality and this signal enables firms to build on their credibility as an organization and stakeholders view the firm in a more positive light (Wade et al., 2006). In turn, this trust environment helps CEOs in being flexible to grasp new business opportunities and enjoy powerful bargaining positions (Koh, 2011). Bertrand and Schoar (2003) show that managerial fixed effects explain various corporate decisions concerning financing, investment, and strategy. Flynn and Staw (2004) find that the stocks of companies headed by charismatic leaders appreciate more than the stocks of their peers. Furthermore, they show that investors are more willing to invest in companies with charismatic leaders even if the firms are seemingly in trouble and charismatic leaders are able to turn stakeholder perceptions around and make negative news seen in a more positive light. Nguyen-Dang (2005) finds that if CEOs maintain high levels of media coverage, their companies outperform their peers by 8 percent a year. Koh (2011) uses high-profile awards to CEOs as a proxy for managerial reputation and he finds that after a CEO wins such an award, on average his/her firm achieves positive abnormal returns. He further discovers that reputed CEOs engage in more conservative accounting practices and are less likely to engage in opportunistic short-term behavior in earnings management, which help maintain a favorable financial performance in the long-run. Demerjian et al. (2012) illustrate that managerial ability is associated with improved media coverage of the CEO and important firm outcomes such as compensation, stock performance, and Tobin's q. These results suggest that capital markets view firms' long-term performance favorably in the presence of highly reputed CEOs.

One concern here is the tendency of capital markets to dismiss intangible assets as long as their benefits are not realized in earnings (Aksoy et al., 2008). For instance, Edmans (2011) finds that intangibles reflect on the stock price only when it manifests in tangible outcomes that are valued by the market. As a result, we expect an indirect impact of reputation on market value through improved profitability. In assessing the market value of the firm, including a profitability measure is strongly advocated in the literature as it is identified as one of the major drivers of market value (e.g. Angulo-Ruiz et al., 2014; Sandner, 2009). Haugen and Baker (1996) and Yang et al. (2010) find out that the higher the profitability the higher the surplus enjoyed by the shareholders. Many studies that focus on the relationship between profitability and market value suggest that a highly profitable business is often rewarded with a better trading price (e.g. Allayannis and Weston, 2001; Chen and Chen, 2011; Sucuahi and Cambarihan, 2016). Therefore, putting all these arguments together we suggest,

Hypothesis 4. Favorable CEO and corporate reputations have a positive indirect impact on market value through increased profitability.

4.3 Data and Methodology

One major challenge of the studies that focus on intangible corporate resources is measurement. The question whether intangible resources indeed contribute to financial performance is considered to be a complicated one due to shortcomings of traditional methods. Our dataset is a combination of psychometric and econometric data. In social sciences, collecting data through surveys is a common method since some concepts may be subjective and not directly quantifiable. Therefore, we frequently rely on psychometric data, which is basically shaped by opinions and perceptions of survey participants (Cho and Pucik, 2005; Powell, 1996).

The psychometric data we use was originally collected for the German *Manager Magazin* surveys covering the largest companies operating in Germany[3]. This is one of the few studies with reputation measured through a comprehensive survey across Germany. *Manager Magazin* is one of the most prominent business magazines in Germany and its indices are widely recognized besides Fortune Magazine.

For many years now, *Manager Magazin* has been conducting these surveys to measure corporate reputation and CEO reputation. There are already studies that focus on quantifying and measuring corporate reputation with similar survey methodologies as *Manager Magazin*'s (e.g. Fombrun et al., 2015). However, studies that investigate the effects of CEO reputation, usually measure CEO reputation by using the number of CEO press citations (e.g. Francis et al., 2008; Rajgopal et al., 2006). Characteristically most of these studies suffer from a measurement error since increased press citations do not necessarily translate into increased reputation since press tends to be biased towards negative news about CEOs (Core et al., 2008) and heavily cover already visible companies (Miller, 2006). Other studies use high-profile CEO awards as a proxy for CEO reputation (e.g. Koh, 2011). Yet, this approach is also problematic due to self-promoting CEOs. It is likely that self-promoters exert greater effort in courting the press and award-granting institutions cannot really distinguish self-promoters from true achievers since these institutions rely solely on public information to access CEO quality. As a result, only a small number of 'superstars' enjoy the bulk of such prestigious awards (Malmendier and Tate, 2009). Instead, we make use of *Manager Magazin*'s survey methodology, where the analysis relies on expert opinion. We believe this

[3] Please see Schwalbach (2015) for details.

methodology is relatively less biased. Manager Magazin's pool of experts is composed of mostly university graduates and they usually function as middle and upper managers in various organizations with 10 years or more industry experience. In the surveys, executives are asked to evaluate the firms and CEOs that they know of. The scores range from 0 (worst) to 10 (best). We have 119 companies in our sample with corresponding aggregated CEO and corporate reputation scores. Each survey is conducted every two years. Nonetheless, over the years, the sample and the methodology have evolved considerably. Therefore, in our paper we only use data from years 2012, 2013 and 2014 for comparability reasons. We obtained related accounting and market data from Datastream and matched the database with corresponding reputation scores.

In our conceptual model, we propose that reputations are sticky variables that affect one another and have tangible benefits for companies. Scholars use various measures of profitability while investigating organizational performance. In this study, we will use return on assets (ROA), which represents a firm's ability to effectively utilize input resources for value creation (Lee and Kwon, 2017). It is a short-term operational performance measure and used by many scholars for organizational performance due to its explanatory nature (e.g. Lee and Kwon, 2017; Sandner 2009; Subramanian and Nilakanta, 1996; Zajac et al., 2000). For market value we will use the market to book ratio, which is the ratio of stock price to book value per share (Brealey et al., 2012). It is widely used by scholars as an indication of a firm's capability to exceed expected returns in the future and gives an idea about the stock market's perception on the value of a firm's present and future income and growth potential (e.g. Combs and Ketchen, 1999; Montgomery et al., 1984).

We will also employ additional controls that have a potential impact on profitability. First one is R&D intensity. It is defined as the ratio of R&D spending to the firm's total sales and it is a measure frequently used to capture innovativeness in the literature (e.g. Joecks et al., 2019; Howell, 2019). Investment in R&D enhances a firm's ability to generate intangible assets (Eroglu and Hofer, 2014) and create a knowledge base to identify and acquire external knowledge (Schildt et al., 2012). Thirumalai and Sinha (2011) argue that higher R&D intensity refers to a firm's innovation orientation and is an indicator of absorptive capacity to recognize, acquire, and deploy external knowledge (Bellamy et al., 2014). Secondly, we use number of employees in natural logarithm as an indicator of firm size. We control for firm size due to the fact that large firms may have more resources and hence, enjoy economies of scales, whereas smaller firms may have higher flexibility in seeking entrepreneurial rents

(Luo and Bhattacharya, 2006; Rao et al., 2004). Finally, we measure growth performance by compound annual growth rate of sales. One obtains compound annual growth rate of sales by dividing the value of sales at the end of the period by its value at the beginning of that period, then raising the result to an exponent of one divided by the number of years and subtract one from the subsequent result (e.g. Cho and Pucik, 2005).

Sample characteristics are summarized in *Table 4.1*. Please note that Manager Magazin's original reputation scores and firm size are in natural logarithms. Scores range from a low of 5.93 to a high of 6.76 with a mean around 6.44. Firms come in a wide range of sizes with varied levels of organizational performance and innovation capabilities. During the time frame of our study, whereas some companies suffer from negative ROA, book value and growth, others enjoy high returns accompanied with high stock prices and increased sales. All companies in our sample are well recognized in Germany but they differ in size and R&D intensity, which can be as low as 0.

We take 2014 as the 'current' year in our study. Years 2012 and 2013 account for the 'past'. The corporate reputation scores were published in years 2012 and 2014 and CEO reputation scores were published in year 2013. *Manager Magazin*'s reputation surveys do not take place at the end of the announcement year. Experts usually evaluate the companies and CEOs the year prior to the announcement of the scores, which essentially means that they process past information relative to the announcement year. Therefore, it is useful to note that for instance, corporate reputation score from 2014 actually offers information from 2013. Accordingly, in our calculations we take year-end values of profitability and market value from 2014. Similar to reputation scores, controls are measured at the end of year 2013. By conducting the analysis this way, we account for the time before both reputation and controls could have an impact on organizational performance.

In *Table 4.2* associated correlations are shown. We observe that reputation scores are highly correlated with correlation values ranging from 0.81 to 0.92. We already see here that corporate reputation moves together with past reputations. We observe market value and profitability exhibit moderate correlation with a value of 0.44. Whereas, reputation scores and profitability also display moderate correlation with values ranging from 0.38 to 0.41, reputation scores and market value display rather low correlations with values ranging from 0.20 to 0.26.

Table 4.1: Descriptive statistics

	No. Obs.	Mean	Std. Dev.	Min.	Max.
Corporate reputation	119	6.445	0.168	5.932	6.760
Past corporate reputation	119	6.440	0.166	6.016	6.733
Past CEO reputation	119	6.441	0.143	6.009	6.711
Profitability	118	0.047	0.066	-0.209	0.276
Market value	110	3.208	3.297	-3.840	17.640
Growth	117	-0.018	0.110	-0.579	0.480
Innovativeness	116	0.032	0.049	0.000	0.200
Size	114	10.993	1.381	3.555	13.241

Notes. Aggregate reputation scores and size are in natural logarithms.

Furthermore, growth is correlated with current corporate reputation and past CEO reputation even though the values are quite low with magnitudes 0.20 and 0.22 respectively. Finally, innovativeness shows similarly low but significant correlation with past and current corporate reputation and profitability ranging from a low of 0.21 to a high of 0.23. All other reported correlations are insignificant at the 0.05 level.

Table 4.2: Correlations

Variable	1	2	3	4	5	6	7	8
1. Corporate reputation	1							
2. Past corporate reputation	.917	1						
3. Past CEO reputation	.813	.811	1					
4. Profitability	.391	.414	.376	1				
5. Market value	.203	.263	.205	.438	1			
6. Growth	.201	.141§	.223	.117§	.105§	1		
7. Innovativeness	.226	.219	.101§	.213	.177†	-.068§	1	
8. Size	.007§	.047§	.007§	.177†	.104§	-.053§	.113§	1

All significant unless stated otherwise († $p < 0.10$; § $p > 0.1$)

We test the validity and reliability of our conceptual model with structural equation modeling (SEM) methodology. Our hypothesized model suggests that current corporate reputation is largely determined by past corporate and CEO reputations and it has a positive influence on organizational performance. We further claim that profitable companies are rewarded with higher stock prices in the stock market. We also control for size, innovativeness, and sales growth, which are potential influential factors for profitability. We also argue that reputation may have indirect but tangible effects on market value through realized earnings.

In our baseline model (*Model 1*), we apply listwise deletion in cases of missing values. Our dataset is sufficiently large to achieve statistical power. At this step, we utilize a maximum likelihood estimation methodology. In *Model 2*, we also make use of the observations containing missing values in order to compare and contrast estimation results. In this approach (*MLMV* method in Stata), missing values are assumed to be missing at random (MAR), which is a term used to describe situations where missing values are not just scattered completely at random throughout the data but if some of them are more likely to be missing than others, this can be predicted by the variables in the model. However, this method and previous maximum likelihood estimation in the baseline model heavily rely on the assumption of joint normality of the observed variables. Normality tests reveal that our data is not normally distributed though. Therefore, for robustness, from *Model 3* on we relax normality assumption (*ADF* method in Stata). This method generates a generalized method of moments (GMM) estimator which is asymptotic distribution free and it makes no assumption of joint normality or symmetry (Stata, 2011). In relaxing normality, we find out that there are significant paths and covariances to be included in our original model, hence, we introduce additional models to arrive at the most favorable model of all.

In order to evaluate the fit of our proposed models, we use a mix of fit indices following Hair *et al.*'s recommendation (2010): Along with Coefficient of Determination (CD), we report one incremental fit index (Comparative Fit Index, CFI), two goodness-of-fit indices (Trucker-Lewis Index, TLI and The Root-Mean-Square Error of Approximation, RMSA), and one badness-of-fit index (SRMR, Standardized root mean square residual). CD for the system of structural equations measure the amount of variation accounted for in the endogenous constructs by the exogenous constructs. Values approaching 1 as much as possible show a very good fit. A CFI and TLI above 0.90 indicate convergent validity. Furthermore, values of RMSEA less than 0.05 are considered a close fit and values above 0.1 indicate a poor fit.

Table 4.3 presents all the fit indices associated with our models. Models *1* and *2* provide quite reasonable fits except for RMSEA value of 0.66 for *Model 1*. Yet, we already established that since our data is not normally distributed, these two models are not appropriate for our analyses. Once we relax normality though, *Model 3* exhibits rather poor fit indicating other significant paths and covariances that we have not accounted for. Hence, step by step we extend the proposed model to arrive at *Model 6* for which all fit indices display values within acceptable ranges. Please note that for *MLMV* option in Stata, SRMR values are not reported due to missing data.

Table 4.3: Goodness-of-fit statistics

	Model					
	1	**2**	**3**	**4**	**5**	**6**
RMSEA	0.066	0.047	0.157	0.125	0.118	0.026
CFI	0.983	0.991	0.642	0.803	0.840	0.994
TLI	0.974	0.986	0.437	0.639	0.680	0.984
SRMR	0.046	-	0.052	0.040	0.037	0.027
CD	0.868	0.862	0.936	0.921	0.922	0.889

RMSEA: The Root Mean Square Error of Approximation
CFI: Comparative fit index
TLI: Tucker Lewis index
SRMR: Standardized root mean square residual
CD: Coefficient of determination

χ^2 test statistic is the most commonly cited fit index in the literature and in SEM it is desired to be insignificant so that the proposed model cannot be rejected. In our finalized *Model 6* it appears to be indeed insignificant and we are not able to reject the proposed model. We should still be cautious as relying on this index posits problems when the data is not multivariate normal. Furthermore, it is very sensitive to sample size and also affected by the number of parameters in the model (Satorra and Bentler, 2001; Schmermelleh-Engel et al., 2003). In large samples, χ^2 tests almost always result with the rejection of the proposed model. In our analysis we have a slightly small sample and our p-values do exceed 0.05 for the final model. It is quite established in the literature that there can be inconsistencies among indices and having χ^2 as the outlier is common (Eagle et al., 2001). However, given all the evidence, we do not really have inconsistencies or outliers among fit indices, therefore, it is quite reasonable to conclude that we have a strong model fit.

4.4 Results

Using Stata Software, a structural equation model was fitted to our dataset with observed variables, namely, past corporate reputation, current corporate reputation, past CEO reputation, market value, firm size, innovativeness, profitability, and sales growth.

In *Table 4.4* the standardized results are displayed. In Stata SEM command 'standardized' help us obtain standardized values, which is 'beta' values for coefficients, correlations for covariances and error variances as the fraction of the unexplained variance. A standardized value is in standard deviation units, which essentially is the change in one variable given a change in another both measured in standard deviation units (Stata, 2015).

Table 4.4: SEM results (standardized)

	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Structural						
Profitability ←						
Corporate rep.	0.337	0.344	0.376	0.420	0.377	0.362
Innovativeness	0.142§	0.123§	0.362	0.227	0.233	0.169
Growth	0.054§	0.095§	0.124	0.101†	0.088§	0.106†
Size	0.190	0.167	0.167§	0.189	0.250	0.247
Corporate reputation ←						
Past CEO rep.	0.233	0.202	0.193	0.140§	0.136§	0.312
Past corporate rep.	0.719	0.753	0.773	0.807	0.809	0.636
Innovativeness						0.052
Past CEO reputation ←						
Past corporate rep.	0.842	0.811	0.911	0.903	0.898	0.809
Growth						0.165
Market value ←						
Profitability	0.437	0.435	0.447	0.486	0.386	0.388
Past corporate rep.					0.124	0.148
No. Obs.	103	119	103	103	103	103
χ^2	20.26	17.65	49.35	31.45	26.81	9.63
p-value	0.1220	0.2232	0.0000	0.0017	0.0049	0.3814

Notes: All significant unless stated otherwise († p < 0.10; § p >0.1); constants and covariances are not reported.

The results from our final *Model 6* are in support of all the hypotheses we proposed. All standardized path coefficients are significant at the 0.05 level except for the value of the path from sales growth to profitability, which is only significant at the 0.1 level.

We observe that current corporate reputation is largely influenced by past reputation, which is in support of our first hypothesis. Whereas past corporate reputation seems to be the major driver of corporate reputation with a magnitude of 0.636, past CEO reputation has a contribution of 0.312 in magnitude. We also find evidence for our second hypothesis. CEO reputation and corporate reputation seem to move together and affect each other in lags. We find that CEO reputation is greatly influenced by past corporate reputation, where standardized path coefficient is as large as 0.809 and in turn, corporate reputation is largely a product of past corporate and CEO reputations in magnitudes of 0.636 and 0.312 respectively. Our third hypothesis has also found support. There is a direct link between corporate reputation and profitability. In fact, reputation seems to be the largest contributor of profitability with a magnitude of 0.362. We further establish that market indeed rewards profitable companies. Profitability has a significant and positive impact on market value with a standardized path coefficient of 0.388. Expectedly, as we established in the theory section, firm size and innovativeness have a positive and significant influence on profitability. Yet, sales growth seems to be significant only at the 0.1 level.

4.4.1 Additional paths

After the introduction of distribution free approach, we also found direct significant paths to be included in our model. Modification indices in Stata give us important information about omitted paths in the fitted model. One such path is from innovativeness to corporate reputation, which is not too large with magnitude 0.052, but significant regardless. Innovativeness can be thought as another form of signaling and there is evidence in the literature that it is associated with reputation. It is an important firm asset (Fang et al., 2011) and a source of respect and admiration for the innovator. Its impact though, is very much dependent on how a particular innovation is communicated to various stakeholders and whether it is deemed effective (Courtright and Smudde, 2009). Rankings published by agencies and media outlets such as Bloomberg, Business Week, and Forbes add to the visibility and reputation of firms by conveying information on innovativeness. Investors and other stakeholders reward those companies that are able to adapt, develop new ideas and innovate (Fombrun et al., 2015). Apparently, in Germany this relationship is already visible and appreciated.

Another direct path we found to be significant is the path from past corporate reputation to market value. The impact is quite sizeable with standardized path value as large as 0.148. We argued in the theory part that market rewards intangible goods when they are realized in earnings. However, there seems to be a direct effect of intangible goods realized in lags too. In KRC Research's 2020 study, where global executives are asked to evaluate antecedents and consequences of corporate reputation, on average they attribute 63% of their company's market value to their company's overall reputation. This may be perceived as an optimistic prediction but with our study, we show that there is evidence of lagged effects of reputation. Whereas, we find no evidence for the direct impact of current corporate reputation on the current market value, past corporate reputation seems to have a significant effect on market value.

The last direct path we found significant is the path from sales growth to CEO reputation. It should be noted that CEO reputation scores were announced in 2013 but the data was collected at the end of year 2012 and around the first quarter in 2013. As we have stated in the data section, sales growth is the compound annual growth from 2012 to 2013. There have been a number of studies that estimate CEO ability. One good example is Demerjian et al. (2012), where a measure of manager-specific efficiency is created. In their validity checks they find that the measure is positively related to sales growth among other variables such as CEO pay. Since CEO reputation is an indication of CEO ability, it can serve as a performance-based proxy of innate managerial reputation (Cheng, 2017). Thus, it might not be that surprising that we find a significant path from sales growth to CEO reputation. When we performed the same analysis but took growth from year 2011 to 2012, the path coefficient was insignificant. What we see here might be the possibility of growth announcements and even growth predictions reflecting on reputation almost immediately. The trends in growth may have been realized by the respondents as early as the first quarter in 2013 but to know for sure, one has to explore this relationship for longer periods with more frequent reputation measurements. All of our major results and established relationships are presented on *Figure 4.2*.

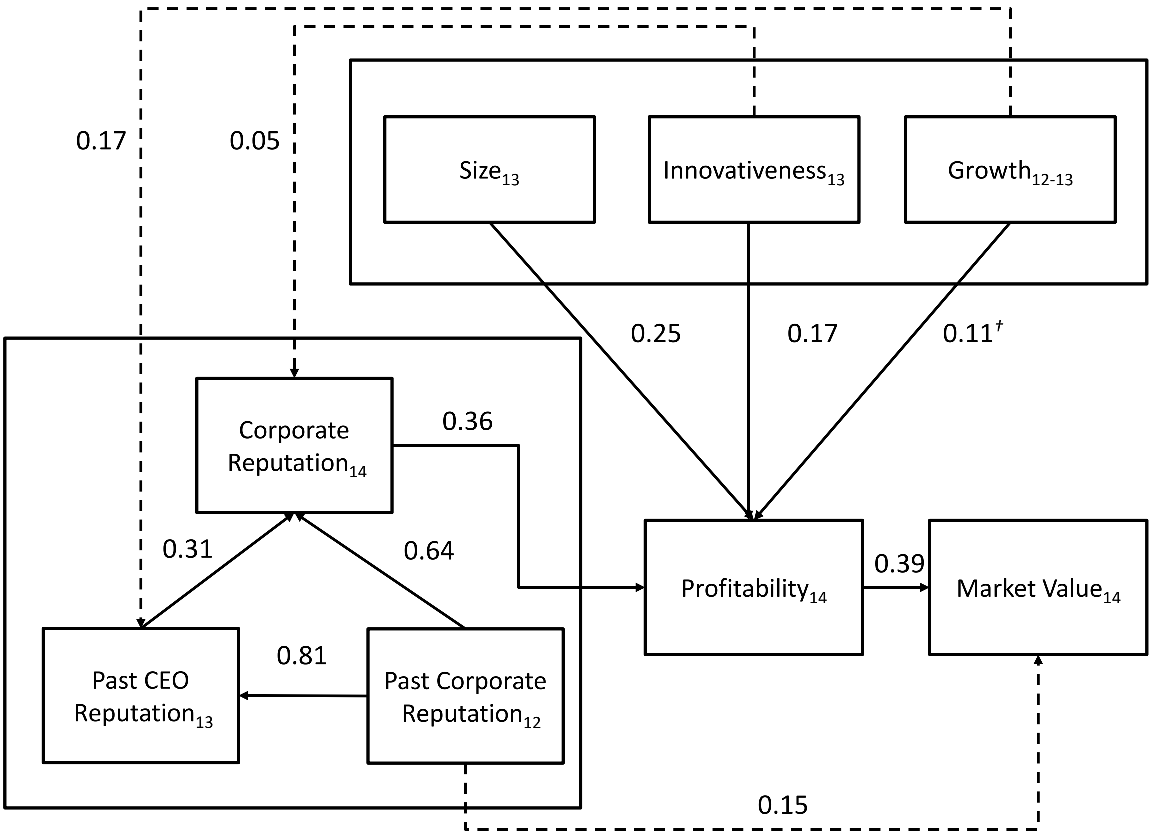

Figure 4.2: A conceptual model of reputation and organizational outcomes with estimation results

4.4.2 Indirect paths

Table 4.5 presents indirect and total effects implied by our models. In our finalized *Model 6* all the significant paths and covariances suggested by the data are included with adequate distributional arrangements. For profitability, most sizeable indirect impact comes from past corporate reputation with a magnitude of 0.322, which supports our claim that reputation works in lags. This indirect influence occurs through past corporate reputation's impact on CEO reputation and current corporate reputation, which in return boost profitability. Past corporate reputation is followed by CEO reputation with magnitude as high as 0.113. Innovation and growth come last with a small impact of 0.019 each but significant regardless. As we have argued before, innovation and sales growth work towards building an image and our results show that building an image of an innovator with good prospects for future growth also has tangible benefits.

We further observe that past corporate reputation has a sizeable indirect impact, which is as large as 0.253 along with its direct impact on current corporate reputation, which occurs through its influence on executives' image. Another indirect influencer of superior corporate reputation seems to be sales growth with a magnitude of 0.052. Undoubtedly, one aspect of how stakeholders evaluate corporations is financial performance. Even though different stakeholders have different expectations from companies, a favorable financial performance is usually seen in part as a consequence of meeting these expectations (Walsh et al., 2003). Profitability and growth prospects signal to investors about the companies' operating success and have been shown to influence reputation ratings (Fombrun et al., 2015; Fombrun and Shanley, 1990) and in our case, sales growth seems to provide an indication of a healthy prospective growth and adds to both executive and corporate reputations.

Our analysis yields many indirect significant paths for market value, which also make theoretical sense and find some support from existing empirical literature. Our last hypothesis is supported as we indeed observe that reputations have an indirect impact on market value through enhanced profitability. However, in addition we also find that past corporate reputation has a direct impact on market value too. There are actually very few empirical studies to have taken the market value approach, which evaluated the factors that have an impact on market value (Lee and Kwon, 2017). Especially for the role of leadership, we see mixed arguments and empirical results in the literature. Some theorists, who study strategy and leadership, argue that executive actions shape the fates of enterprises (Child, 1972; Hambrick and Mason, 1984; Hambrick and Quigley, 2014).

Table 4.5: SEM indirect and total effects (standardized)

	Model 1		*Model 2*		*Model 3*		*Model 6*	
	Indirect	Total	Indirect	Total	Indirect	Total	Indirect	Total
Profitability ←								
Corporate reputation		0.337		0.344		0.376		0.362
Innovativeness		0.142§		0.123§		0.362	0.019	0.187
Growth		0.054§		0.095§		0.124	0.019	0.125
Size		0.190		0.167		0.167§		0.247
Past corporate reputation	0.309	0.309	0.316	0.316	0.356	0.356	0.322	0.322
Past CEO reputation	0.079	0.079	0.070	0.070	0.072†	0.072†	0.113	0.113
Corporate reputation ←								
Past CEO reputation		0.233		0.202		0.193		0.312
Past corporate reputation	0.196	0.916	0.164	0.917	0.176	0.948	0.253	0.889
Innovativeness								0.052
Growth							0.052	0.052
Past CEO reputation ←								
Past corporate reputation		0.842		0.811		0.911		0.809
Growth								0.165
Market value ←								
Profitability		0.437		0.435		0.447		0.388
Corporate reputation	0.148	0.148	0.150	0.150	0.168	0.168	0.140	0.140
Past corporate reputation	0.135	0.135	0.137	0.137	0.159	0.159	0.125	0.272
Past CEO reputation	0.034	0.034	0.030	0.030	0.032†	0.032†	0.044	0.044
Size	0.083	0.083	0.073†	0.073†	0.075§	0.075§	0.096	0.096
Growth	0.023§	0.023§	0.041§	0.041§	0.056†	0.056†	0.048†	0.048†
Innovativeness	0.062§	0.062§	0.053§	0.053§	0.162	0.162	0.073	0.073

Notes: All significant unless stated otherwise († p < 0.10; § p >0.1).

There have been empirical studies that show that the reputation of a top executive may have a positive impact on the short-term stock performance of his/her employer as shareholders may view CEO reputation as an indicator of competence and CEO reputation may help reduce uncertainty about a given firm's future prospects (e.g. Johnson et al., 2005; Wade et al., 2006). However, there are also some theorists who claim that executives are constrained by organizational inertia, path-dependence, rigid resource configurations, and pressure to adopt institutionalized norms that they do not really have much power over what happens in their companies (e.g. DiMaggio and Powell, 1983; Haveman, 1993), whereas others try to bridge these two opposing views and identify the conditions under which executives might have an influence on organizational outcomes (e.g. Finkelstein and Boyd, 1998; Shen and Cho, 2005). Our results show that past and current corporate reputations are the largest indirect contributors of market value with magnitudes of 0.125 and 0.140 respectively. We also find that CEOs do make a difference in their organizations and their image is a significant contributor of market value with an indirect standardized path value of 0.044.

Brealey et al. (2012) propose that a large firm has vast amount of internal and external funds at its disposal and hence, can attain larger firm value through the use of these resources. However, there are usually mixed results on the impact of firm size on market value in the literature (Setiadharma and Machali, 2017). For instance, Mule et al. (2015) show that there is no significant relationship between firm size and market value. On the other hand, there is also some empirical evidence for the positive effect of firm size on market value (e.g. Berger and Patti, 2006; Dang et al., 2019). Small firms do not have the flexibility to undertake diversification, cannot enjoy economies of scale and have a higher cost of bankruptcy with a lower credit rating and potentially larger borrowing costs (Himmelberg et al., 1999; Michaelas et al., 1999). Hence, we would expect larger firms to have lower borrowing costs in comparison leading to higher profitability and hence, a higher market value. Our results are in support of such arguments as we find an indirect but significant influence of firm size with a magnitude of 0.096.

We would expect firms with enhanced technological capabilities through aggressive R&D investments to provide increased returns to investors and improve their market value (Lee and Kwon, 2017; Nekhili et al., 2012). Dowell et al. (2000) also show that R&D intensity is an important contributor of market value. Chavvin and Hirschey (1993) empirically illustrate that R&D has a considerable impact on the market value of the firm. They argue that R&D efforts in line with core competencies of the firm can be viewed as a strategic form of investment in intangible assets, which have the potential to be realized as positive future cash flows and bring in sizeable profits. Likewise, our results indicate an indirect effect through profitability and reputation with a magnitude of 0.073.

Sales growth is observed to be another indication of market performance. Myers (1977) suggested that revenue growth is an important factor in determining firm value. There is a number of studies that found a positive correlation between sales growth and business value (e.g. Hermuningsih 2014; Kodongo et al., 2015). Sales growth can also be interpreted as a signal of market power and gives an idea about the likelihood of survival of a firm operating in a competitive market (Lee and Kwon, 2017). Many empirical studies found a positive impact of growth on market value (e.g. Claessens et al., 2002; King and Santor, 2008). However, the influence of sales growth is rather small with a magnitude of 0.048 and only significant at the 0.1 level in our analysis.

4.4.3 An extension to the original conceptual model

The analysis we explained so far is a snapshot of the proposed relationships in our conceptual model. In reality, the relationship between reputation and organizational performance may be a lot more complicated and one might require a more sophisticated analysis to capture this relationship. Our survey data has infrequent observations with a relatively small size and does not allow for panel data analysis. However, even though we are restricted with our data, we can still try and explore the question whether our results could hold for longer time periods. Research also suggests that it may take some time before reputational benefits are realized in shareholder value improvements. Therefore, it could be reasonable to evaluate this relationship over a longer period of time (Aksoy et al., 2008; Raithel and Schwaiger, 2015).

March (1991) argue that returns from exploration and exploitation vary with respect to their timing, which essentially means that returns from exploration are less certain and more remote in time than returns from exploitation. For instance, returns from innovativeness are not guaranteed and might be realized over a long period of time. Following Cho and Pucik (2005)'s logic, who devise a model around innovativeness with multiple latent variables, we can argue that returns from reputation may also be uncertain and some returns might be realized at a remote point in time. Therefore, in order to capture short-term and medium-term effect of reputation, we extend our original model to cover a 3-year period from 2012 to 2014 and accordingly take a 3-year average of the variables size, innovativeness, profitability, market value, and also consider 2-year growth of sales from 2012 to 2014. Cho and Pucik (2005) argue that this approach reduces mono-year bias in the analysis. We will also include a latent variable for reputation, which is measured by three reputations observed in years 2012, 2013 and 2014. Here, our point of departure is our claim in the theory part that different actors' reputations may converge over time. The argument there was that a sustained superior performance or organizational ability to deliver quality is a key antecedent to corporate reputation and possibly related to executive reputation too (Graffin et al., 2012). Some scholars argue that organizations and CEOs are usually both judged by organizational performance (e.g. Finkelstein et al., 2009), which leads to the belief that these two reputations may converge over time. Therefore, Manager Magazin surveys conducted in three consecutive years may be an adequate measurement of one reputation at the end of these three years. We would like to see if this could be the case.

We will further test for the existence of other paths of significance. Most importantly, as we extend the time frame of the model, we can now look at the causality issue. In reputation literature, the causality and strength of the relationship between reputation and organizational performance is extensively discussed (De la Fuente Sabaté and Puente, 2003). Profitability and growth prospects are known to influence reputation ratings dearly (Fombrun and Shanley, 1990) and found to be consistent correlates of reputation in many academic studies (Lange et al., 2011). Research suggests that a reputation-performance effect may operate both ways meaning that reputation may affect performance and performance may affect reputation in return (McGuire et al., 1990; Roberts and Dowling, 2002).

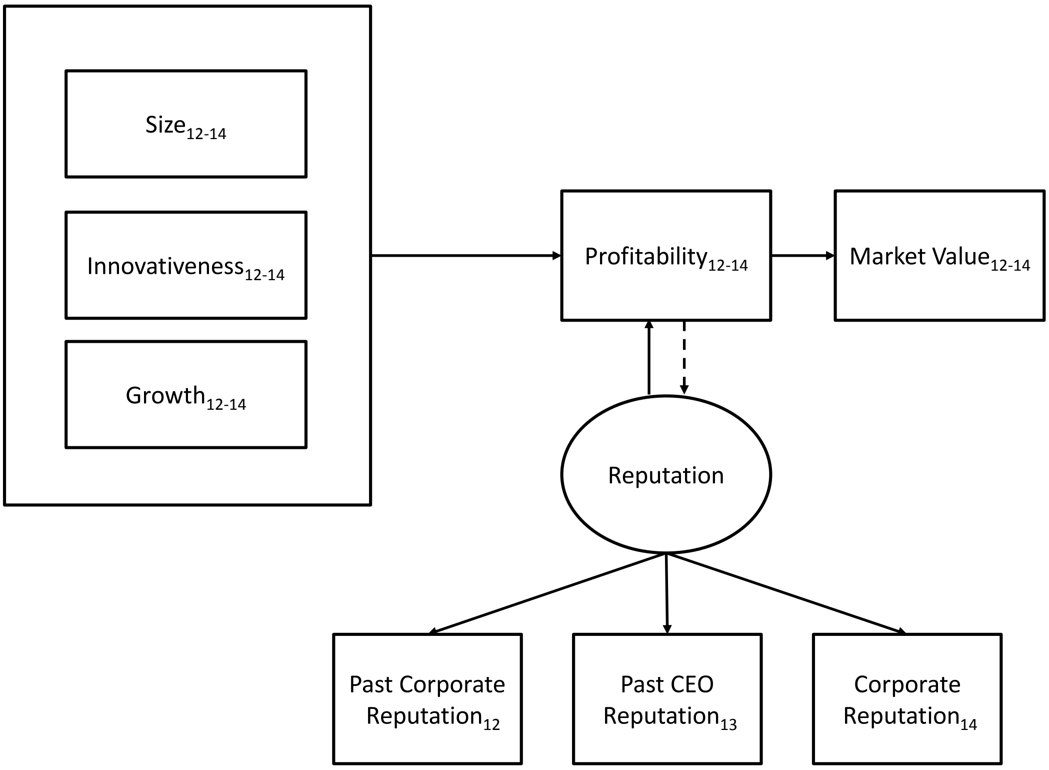

Figure 4.3: A conceptual model of reputation and organizational outcomes - extended

Figure 4.3 demonstrates the extended model. The relationships we established earlier between controls, profitability and market value remain the same. One major difference from the original model is the introduction of the latent variable *reputation* and its measurement via three reputations collected in three different years through the reputation surveys. As the time frame extends we will also test for the path from profitability to reputation. Due to inclusion of averages, in this model we cannot control for lagged effects.

Table 4.6: Cronbach's α – extension

	No. Obs.	Alpha
Corporate reputation	119	0.8904
Past corporate reputation	119	0.8903
Past CEO reputation	119	0.9565
Test Scale		**0.9420**

Cronbach's alpha is a measure of internal consistency and our alpha value of 0.942 suggests that our items have a high internal consistency *(Please see Table 4.6)*. Next, in order to check whether the scale is unidimensional, we conduct a factor analysis *(Table 4.7)* and results advocate retaining one factor. Confirmatory factor analysis is not very meaningful though as the model is just identified. We have three variables measuring one latent variable. Our empirical data is composed of three variances and three covariances. In turn, the parameters to

Table 4.7: Factor analysis: Principal-component factors – extension

Unrotated	**Reputation**			
Factor	**Eigen value**	**Difference**	**Proportion**	**Cumulative**
Factor 1	2.695	2.472	0.898	0.898
Factor 2	0.222	0.139	0.074	0.972
Factor 3	0.083	.	0.028	1.000
Rotated *(Retained factors = 1)*				
Factor	**Variance**	**Difference**	**Proportion**	**Cumulative**
Factor 1	2.695	.	0.898	0.898
LR test: $\chi^2(3) = 351.33$ $Prob>\chi^2 = 0.0000$				

be estimated are three error variances and three factor loadings making zero degrees of freedom. Resulting zero chi-square implies that the model is saturated suggesting a perfect fit but no model is perfect. Still, the estimations and goodness-of-fit statistics are presented in *Table 4.8*.

Next, we try to test the extended model. We present the estimation results in *Table 4.10*. Through models 7-10 we do not experience any convergence issues and goodness-of-fit statistics suggest a good fit (*please see Table 4.9*). We start off with a small model and step by step extend it to include proposed relationships in the extended model and allow for correlation between error terms in the measurement part from *Model 9* on. *Model 10* is the model where we relax normality assumption, in *Model 11* we include the controls for profitability, and *Model 12* includes the additional path from profitability to reputation. Yet, by inclusion of this path and the controls, models 11 and 12 become too complex and our sample size simply is not enough to estimate these models.

Table 4.8: Confirmatory factor analysis – extension (standardized)

Measurement		
Reputation	→ Past CEO reputation	0.848
	Corporate reputation	0.958
	Past Corpora reputation	0.956
No. Obs.		119
$\chi^2(0)$		0.000
p-value		.
Goodness-of-fit statistics		
	RMSEA	0.000
	CFI	1.000
	TLI	1.000
	SRMR	0.000
	CD	0.961

Notes: All significant unless stated otherwise († p < 0.10; § p >0.1). Constants are not reported.

In models 13 and 14 by imposing meaningful constraints supported by the data we try to facilitate convergence of the model but we still suffer from rank deficiency, which means that the parameters in our set of simultaneous equations are not identified due to inadequate number of observations. Full rank condition requires that the matrix of all structural equations in our model to have full rank; we need more data so that the algorithm can choose a solution, which represents all of the data with minimum error. Tests also suggest that there are other significant paths and covariances to be included in the proposed model.

Table 4.9: Goodness-of-fit statistics – extension

	Model							
	7	**8**	**9**	**10**	**11**	**12**	**13**	**14**
RMSEA	0.000	0.052	0.000	0.000	-	-	-	-
CFI	1.000	0.996	1.000	1.000	1.000	1.000	1.000	1.000
TLI	1.015	0.993	1.016	1.057	-	-	-	-
SRMR	0.004	0.015	0.009	0.011	0.196	0.048	0.055	0.050
CD	0.961	0.966	0.966	0.969	1.000	0.542	0.847	0.868

RMSEA: The Root Mean Square Error of Approximation
CFI: Comparative fit index
TLI: Tucker Lewis index
SRMR: Standardized root mean square residual
CD: Coefficient of determination

After we perform 10,000 iterations for the last two models we end up with presented estimations in *Table 4.10* and *Table 4.11* shows indirect and total effects. While limited in their explanatory power, these estimations imply that there might be indeed one ultimate reputation formed as actors' reputations converge in time and proposed relationships in our original conceptual model may persist over longer periods. These results and the existence of additional paths open up new avenues for future research to explore. In future reputation studies, it is certainly of interest to investigate the research questions such as the conditions under which reputations converge, if these conditions are satisfied how long it takes this convergence to take place, whether impact of reputations on organizational performance is immediate or in lags or both, whether reputational benefits only reflect in market value through realized earnings or there are immediate tangible benefits too. The dynamics of the two-way relationship between reputation and profitability is also worth investigating.

Table 4.10: SEM results – extension (standardized)

	Model 7	***Model 8***	***Model 9***	***Model 10***	***Model 11***	***Model 12***	***Model 13***	***Model 14***
Measurement								
Past CEO reputation	0.848	0.873	0.873	0.871	1.000	0.539	0.525	0.533
Corporate reputation	0.959	0.956	0.956	0.961	0.613	0.553	0.589	0.568
Past corporate reputation ← Reputation (latent)	0.956	0.967	0.966	0.969	0.411	0.513	0.526	0.501
Structural								
Profitability ←								
Reputation	0.479	0.479	0.480	0.476	0.456	0.207	0.540	0.575
Innovativeness					0.454	0.280	0.137	0.124
Growth					0.601	0.282	0.168	0.158
Size					0.289	0.083§	0.087†	0.069†
Market Value ← Profitability		0.517	0.527	0.548	0.329	0.432	0.417	0.441
Reputation ← Profitability						1.000†	1.000	1.000
No. Obs.	119	111	111	111	108	108	108	108
χ^2	0.08	6.52	1.02	1.23	-	-	-	-
p-value	0.9596	0.2586	0.7955	0.7459	-	-	-	-

Notes: All significant unless stated otherwise († p < 0.10; § p >0.1); constants and covariances are not reported.

Table 4.11: SEM indirect and total effects – extension (standardized)

	Model 12		***Model 13***		***Model 14***	
Structural	Indirect	Total	Indirect	Total	Indirect	Total
Market value ←						
Profitability	0.113	0.544	0.489	0.906	0.597	1.038
Reputation	0.113	0.113	0.489	0.489	0.597	0.597
Growth	0.153	0.153	0.152	0.152	0.164	0.164
Innovativeness	0.152	0.152	0.125	0.125	0.129	0.129
Size	0.045§	0.045§	0.079	0.079	0.072	0.072
Reputation ←						
Profitability	0.261	1.261	1.172	2.172	1.354	2.354
Reputation	0.261	0.261	1.172	1.172	1.354	1.354
Growth	0.355	0.355	0.365	0.365	0.373	0.373
Innovativeness	0.353	0.353	0.299	0.299	0.293	0.293
Size	0.104§	0.104§	0.189	0.189	0.162†	0.162†
Measurement						
Past CEO reputation ←						
Profitability	0.680	0.680	1.140	1.140	1.254	1.254
Reputation	0.141	0.680	0.615	1.140	0.722	1.254
Growth	0.191	0.191	0.191	0.191	0.199	0.199
Innovativeness	0.190	0.190	0.157	0.157	0.156	0.156
Size	0.056§	0.056§	0.099	0.099	0.087†	0.087†
Corporate reputation ←						
Profitability	0.697	0.697	1.280	1.280	1.337	1.337
Reputation	0.144	0.697	0.691	1.280	0.769	1.337
Growth	0.196	0.196	0.215	0.215	0.212	0.212
Innovativeness	0.195	0.195	0.176	0.176	0.166	0.166
Size	0.058§	0.058§	0.111	0.111	0.092†	0.092†
Past corporate reputation ←						
Profitability	0.647	0.647	1.142	1.142	1.181	1.181
Reputation	0.134	0.647	0.616	1.142	0.679	1.181
Growth	0.182	0.182	0.192	0.192	0.187	0.187
Innovativeness	0.181	0.181	0.157	0.157	0.147	0.147
Size	0.054§	0.054§	0.099	0.099	0.081†	0.081†
Structural						
Profitability ←						
Profitability	0.261	0.261	1.172	1.172	1.354	1.354
Reputation	0.054	0.261	0.633	1.172	0.779	1.354
Growth	0.074	0.355	0.197	0.365	0.214	0.373
Innovativeness	0.073	0.353	0.161	0.299	0.168	0.293
Size	0.022§	0.104§	0.102	0.189	0.093†	0.162†

Notes: All significant unless stated otherwise († p < 0.10; § p >0.1).

4.5 Discussion

Our conceptual framework explores the direction and magnitude of the impact of corporate and CEO reputation on profitability and market value in the presence of other firm specific variables. This conceptual framework allows us to predict how market values multiple reputations. Our results suggest that these reputations not only simultaneously affect firm outcomes but also affect each other.

This outcome has several theoretical implications. First and foremost, our research contributes to the growing work on CEO and corporate reputation literature. We shed light on how corporate reputation and CEO reputation are related and show that the two affect each other in lags and account for a large chunk of variance within each. Therefore, it would be fair to propose that in a given context, CEO reputation should be an integral part of future corporate reputation studies.

Our work also has implications for the resource-based view of the firm. We illustrate that besides corporate reputation, CEO reputation is an intangible corporate asset for value creation. We have shown the direct link between corporate reputation and profitability as well as the direct link between market value and past corporate reputation. Moreover, we have found that CEO reputation has an indirect but significant and positive impact on profitability and market value. Furthermore, with this result we add to the extant leadership literature and specifically to the upper echelon theory by showing that firms are indeed reflections of their leaders, which is the major proposition of the upper echelon theory (Hambrick and Mason, 1984). We further find that as CEO reputation significantly contributes to corporate reputation, firms also reflect on their leaders. Moreover, we illustrate how effective signaling process could be in a reputational context. Reputations of leaders may act as a signal of their competence in the market place and as a result, has the tendency to perceive their respective firms' growth prospects in a more positive light (Love et al., 2017).

Our results encourage an active management of reputations and have direct implications also for firms. We show that there is a business case for active management of reputations by demonstrating the link between reputation and firm outcomes. The traditional approach towards management of reputations has generally been exercised with respect to the positions of the competition. However, this reactionary approach may not work anymore as the boundaries between industries cease to exist and firms have difficulty in foreseeing the upcoming competition. In such a business environment, reputation can be operationalized as a tool to protect and defend competitive positions and also act as a deterrent for potential competitors who consider entry to markets in question.

Though it has many important implications both for theory and practice, our study is not without its limitations. Our conceptual model makes theoretical sense and fits the data very well, however, one has to be cautious in generalizing our results. One major shortcoming with our study is the timeframe and the frequency of data collection. All of the relationships we present are complicated relationships and even though our cross-sectional model helps us understand the dynamics of reputations and organizational performance, it captures a snapshot; it's still struggling to capture the ongoing nature of these relationships. It is quite expensive and time consuming to collect longitudinal data at the firm-level and our respondents evaluate both corporate and CEO reputation at a single point in time. Even though reputation is a sticky variable that does not change dramatically from year to year, the next step would be to test the validity of our conceptual model and existence of additional relationships by collecting longitudinal data across various stakeholder groups to see whether our results hold in different contexts with different audiences over longer time periods.

Another concern is how well reputation scores are measured. We strictly depend on Manager Magazine's operational definitions, sample selection, and survey methodology. Mono-method bias may be a concern here as the questionnaire was beyond our control and since our sample is composed of the companies Manager Magazin wanted to cover; all the companies are well known, global companies. Due to the fact that the companies were handpicked, randomization assumption of the data is violated, which in turn lowers the external validity of our findings. It would be interesting to see whether future studies may replicate our results with different methodologies and samples.

There is a heated debate centered around the causality and strength of the relationship between reputation and organizational performance (De la Fuente Sabaté and Puente, 2003). Reputation research suggests that a reputation-performance effect may operate both ways meaning that reputation may affect performance and performance may affect reputation in return (McGuire et al., 1990; Roberts and Dowling, 2002). In our original conceptual model, we have claimed that reputations have an impact on profitability and market value. Nevertheless, our second conceptual model covers three years and even though it does not achieve convergence due to small number of observations, it hints at the existence of a potential reverse path from profitability to reputation. Utilizing a generalized structural equation approach, a longitudinal study with a larger sample would enable us to explore this relationship further and derive conclusions with more confidence. With this model, we also attempted to find out whether it makes sense to think of one ultimate reputation at a point in time, where actors' reputations converge. Our available data suggests that this could be the case but it would also be interesting for future research to find out how long it would take these reputations to converge. In order to find out about the dynamics of this process again a generalized structural model would be meaningful, where multiple equations may be tested simultaneously with time series feature. Larger data sets would also allow us to test the presence of additional latent variables with various indicators.

Again due to our small sample, we were not able to control for industry. In future studies, it would be interesting to see whether industrial contexts play a role in this relationship. Even though there are not many comparative studies, there is evidence that suggests factors that affect reputational assessments vary dramatically across countries. Researchers believe these variations are rooted in sociocultural, legal, and institutional differences (Apéria et al., 2004; Gardberg, 2006; Soleimani et al., 2014). We deduce our conclusions through expert responses from the Manager Magazin's survey. Some researchers suggest that it is better to conceptualize and examine reputation as specific to a certain stakeholder group (Mishina et al., 2012; Rindova et al., 2005). In our case, our framework is more applicable with experts as the respondents. Only industry experts would truly be aware of and able to evaluate the reputations of CEOs and firms. We believe that the fact that our respondents come from different backgrounds and industries at least provides us a potential for generalizability in the European context.

In this study, we have focused on two types of intangible resources, namely reputation and innovativeness. Future studies should investigate other types of intangible assets such as product brands and different aspects of innovativeness such as patents, trademarks etc., which also have the potential to affect organizational performance and we need to learn more about the processes on how such resources can be accumulated and used in an effective way.

Even though reputation is extensively studied in the literature, our overall results show that there is still need for more theorizing and empirical analyses to comprehend the simultaneous role of multiple reputations on organizational performance.

4.6 Conclusion

Limitations we address in the discussion section nonetheless should not be overstated as we replicate several findings already existing in previous empirical literature and confirm hypotheses that are derived from management research. This study contributes to the development of theory and quantitative methods in reputation literature. We integrate RBV, stakeholder theory, and signaling theory in order to illustrate the essential link between reputation and organizational performance.

Our research provides vital insights for reputation research by taking previous studies a step further through inclusion of multiple reputations and their impact on profitability and market value (e.g., Fombrun and Shanley, 1990; Raithel and Schwaiger, 2015; Roberts and Dowling, 2002). It was the first effort to develop a structural equation model with both quantified CEO and corporate reputation scores and show their interplay with financial performance and market value. The SEM approach enabled us to specify causal relationships as supported by theoretical and empirical research. We find that past CEO and corporate reputations contribute significantly in forming current corporate reputation and when controlled for other variables, a favorable corporate reputation significantly improves profitability of firms. It also appears that whereas past corporate reputation makes both direct and indirect positive contributions to market value, current corporate reputation and past CEO reputation have an indirect but significant and positive impact on market value.

Our study helps us understand why firms and CEOs need to invest in their reputations. Our conceptual model illustrates that reputation is crucial in sustaining competitive advantage. In line with the resource-based view of the firm (Barney, 2001; Wernerfelt, 1984), our empirical findings imply that superior reputations are precious intangible corporate resources that are inimitable, which support firms in maintaining a favorable competitive position (Bergh et al., 2010) and prove to be a source of economic value.

Amid a business environment, where customer expectations are on the rise, competitive landscape is continuously growing, and technological advances have a considerable influence on the way business is conducted, markets are evolving and conventional boundaries between industries do not apply anymore. At the age of disruptive innovation, along with product proposition, reputation emerges as a corporate resource to value creation. We strongly believe that this study provides new insights on how reputation is linked to firm performance and demonstrates that a superior market performance can be achieved through active management of CEO and corporate reputations. In today's constantly evolving global markets, firms are in need of investing in reputation building activities and attain a more proactive strategy in order to maintain a sustained competitive position. Their organizational success depends on it.

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Chapter 5

Corporate Governance, CSR Disclosure Quality, and Financial Performance in Chinese Companies

Abstract: The government plays a central role in spreading and promoting corporate social responsibility (CSR) in China. The true intentions of Chinese companies differ across the board and remain largely unknown, but due to great pressure from regulatory authorities and public monitoring, CSR has now become an important concern in most Chinese companies. However, research in the field of CSR in China is limited considering the enormous size and the rapid growth of the Chinese economy. One of the most important aspects of CSR is tracking and reporting progress. By taking a resource-based view of the firm, we leverage legitimacy, stakeholder, and slack resources theories in order to understand and explain how the quality of a CSR report and financial performance are related. We adopt a generalized structural equation modeling methodology as we have panel data and suspect from simultaneity. As a proxy for the quality of CSR disclosure, we use quality scores calculated by the *CSR Reporting Research Group*. Our main results indicate that increased CSR disclosure quality leads to improved financial performance. Furthermore, we find that financial performance has a lagged effect on CSR disclosure quality.

Keywords: *China, Chinese corporate culture, corporate social responsibility, sustainability, corporate governance, corporate strategy, financial performance, reporting, CSR disclosure quality, generalized structural equation modeling*

5.1 Introduction

In China, corporate social responsibility (CSR) agenda is largely pushed by the government accompanied with international pressure. There is increasing evidence that CSR is emerging as a management issue within Chinese firms as a result (Tan-Mullins and Hofman, 2014). Expectedly, as CSR becomes an integral part of business, CSR reporting has been attracting managerial attention as well. Accordingly, in recent years the number of CSR reports that are being published by Chinese companies has been increasing. Even though increasing in quantity, the overall quality of CSR reports in China is not very high. Many of them lack breadth and depth in the information they provide. Most reports do not adhere to international reporting standards and they struggle in embodying company's vision and communicating that vision to multiple stakeholder groups (CSR Reporting Research Group, 2011).

Yet, tracking and reporting progress is a vital part of business. Despite the immense size and enormous growth potential of China, research in the CSR field and specifically on CSR disclosure is limited. CSR disclosure research is largely under-theorized as most studies conducted both in the context of China and in the developing countries context at large, do not use a specific theoretical framework to explain the dynamics behind high quality CSR disclosure and its interaction with different firm characteristics and outcomes (Ali et al., 2017; Rahman Belal and Momin, 2009).

Our major contribution lies with the fact that we build our arguments on a strong theoretical underpinning and support our arguments through empirical testing. By taking a resource-based view of the firm, we leverage legitimacy, stakeholder, and slack resources theories in order to explain how the quality of a CSR report and organizational performance are related. In the empirical part of our analysis, we adopt a generalized structural equation modeling approach and our major results suggest that there is a recursive relationship between CSR disclosure quality and organizational performance. This result demonstrates that even at its infancy in China, there is great potential in CSR reporting to be exploited for improved business outcomes.

The rest of the paper is organized as follows: *Section 5.2* provides a general background on the evolution of CSR and corporate governance in China, *Section 5.3* offers a general literature review concerning CSR and CSR disclosure practices in China and *Section 5.4* sets out our conceptual framework with our hypotheses followed by *Section 5.5*, where we introduce our dataset and methodology. *Section 5.6* demonstrates our results and finally with *Section 5.7* we conclude.

5.2 Evolution of CSR and Corporate Governance in China

The moral system in China is deeply rooted in Confucianism, which is an ethical and philosophical system developed by the Chinese philosopher Confucius (551 - 479 BC). Confucianism was embedded in the legal system by the Chinese emperors from the Han Dynasty (206 BC - 220 AD) onwards and is still the highest valued ethical standards and social norms in China. The most important aspect of Confucianism is humanism (Ren) which is sometimes referred as benevolence or philanthropy in English literature. One influential thought of "Ren" often cited as "the Golden Rule", is "Do not do unto others what you would not have them do unto you."

State-owned enterprises have played an important role in the Chinese business world since 1949 and up until early 1990s there had been no clear distinction between the government, enterprise, and society at large. Starting from the second half of the 20th century, the Chinese economic system had been a centrally planned mechanism and all economic decisions were virtually made by the government. Firms at the time had a strong sense of responsibility in protecting their employees by providing secured jobs and stable incomes. However, this tendency had changed dramatically by the adoption of the open-door economic reform policy in 1978. After the adoption of the economic reform and opening up policy, the business environment had become more liberal and competitive. Western business values had gained increasing popularity in the Chinese business world, especially the idea of shareholder value maximization. Meanwhile, the competition intensity in the Chinese market had been substantially enhanced. In consequence, firms had increasingly started focusing on short-term economic gain (Song and Zu, 2008; Xiao, 2018).

China's substantial and rapid economic growth since 1978 has led to deteriorating environmental conditions and diminishing ethical standards in the business world. State-owned enterprises were slow to take action in CSR due to lack of environmental awareness and protection capacity. During the second half of 1990s and well into early 2000s, the situation got even worse. CSR was weakened further as market logic dominated everyday business and state-owned enterprises were solely profit-oriented constantly engaging in socially irresponsible behavior (Xiao, 2018).

In recent years, the traditional values of Confucianism have been regaining popularity among society, which made CSR strongly welcomed when it was introduced in China during early 2000s. The government now plays a central role in spreading and promoting CSR (Gao, 2009). This marks a new era for Chinese socialism, where there is a shift in stakeholder perceptions and the understanding of business and the concept of corporate social responsibility are redefined (Xiao, 2018). In the 2013 revision of the Company Law of the People's Republic of China, social responsibility is explicitly written as a responsibility of doing business in China. In accordance, *Article 5* states that "When engaging in business activities, a company shall abide by laws and administrative regulations, observe social morality and business ethics, act in good faith, accept supervision by the government and the public, and bear social responsibilities."

The Company Law of the People's Republic of China (2013) also dictates a two-tier corporate governance system, which has important implications for CSR practices too. In accordance with the law, all Chinese companies are required to implement a two-tier corporate governance system consisting of a Board of Directors[4] and a Supervisory Board[5]. The members in the Board of Directors are elected by shareholders and may include representatives of the staff and workers who are elected by their colleagues. The Board of Directors is responsible from the management. It possesses the power of planning the company's operations, financial budgets, profit distributions, and internal management. The general manager of a company is appointed or removed by the board. Therefore, the Board of Directors is the "quasi-decision-making" group of a company[6]. The Supervisory Board is composed of representatives of shareholders and workers. The number of staff and worker representatives should be higher than one third of all Supervisory Board members. The Supervisory Board assumes a monitoring role. Its main responsibility is reviewing the company's financial statements and auditor's reports.

The two-tier board system in China has a structure that resembles German corporate governance system. However, essential differences do exist. The Supervisory Board in China does not have veto power over Board of Directors' or general manager's decision and the power to reappoint general manager or members of the Board of Directors. What a diligent supervisor is supposed to do is to review the financial reports and submit proposals at the shareholders' meeting if any wrong-doing is detected (Chi, 2001). In contrast, the Supervisory Board (Aufsichtsrat) in the German system has the power to appoint and dismiss members in the Management Board (Vorstand). This legal power enables the Supervisory Board to more effectively monitor the Management Board's behavior. The German two-tier board system relies on internal control to solve the agency conflicts between different groups

[4] Exception: "A small-scaled limited liability company or a limited liability company with only a few shareholders may have an executive director without establishing a board of directors", Company Law of the People's Republic of China, Article 50.

[5] Exception: "A small-scaled limited liability company or a limited liability company with only a few shareholders may have one or two supervisors without establishing a board of supervisors", Company Law of the People's Republic of China, Article 51.

[6] Shareholders are, defined by law, the ultimate decision makers. The Board of Directors is elected by the shareholders and is only implementing the decisions made in the shareholder assembly. However, important issues such as profit distribution and merger decisions are discussed in the shareholder assemblies.

of stakeholders (Pape and Weimer, 1999). The Supervisory Board in China also maintains a supervisory role, but it has limited impact on the Board of Directors' behavior due to its lack of power, and therefore, it is quite difficult for the Supervisory Board to truly undertake its monitoring responsibility (Clarke, 2006).

Different from the Management Board in the German system, which contains only executives of the firms, the Board of Directors in China contains also representatives of the staff and workers, and independent outsiders (Pape and Weimer, 1999). From the perspective of power, the Board of Directors in China is more similar to the Board of Directors in the Anglo-Saxon one-tier system, which focuses mainly on maximizing shareholders' wealth. Yet, shareholder wealth maximization is not the aim of Chinese businesses and the purpose of designing such a two-tier board system does not serve this purpose. Thereby, current corporate governance mechanism in China is perceived to be suboptimal. The Supervisory Board needs to be assigned with more legal power to be able to effectively monitor the executives and the Board of Directors (Clarke, 2006).

Corporate governance system and shareholder orientation in China may be seen as a barrier in the adoption of CSR practices. However, there are also efforts to overcome these barriers. In June 2018, China Securities Regulatory Commission (CSRC) released a revised version of the Code of Corporate Governance for Listed Companies for consultation. The code builds on the 2002 version and the 2015 revision of OECD/G20 Principles of Corporate Governance is used as one of the points of reference. One major difference from the earlier version is the strong emphasis on the reinforcing role of the Supervisory Board and promotion of ESG disclosure (Allen and Li, 2018). This is already promising to change the business as usual mindset and promote CSR and use of nonfinancial metrics in measurement and reporting. Of course, sole government effort will not suffice; there is need for action from multiple stakeholders such as institutional investors and civil society to push companies for better corporate governance and CSR.

5.3 CSR in China: A Literature Review

The true objectives of Chinese companies in adopting CSR practices differ across the board and remain largely unknown, but due to the great pressure from regulatory authorities, CSR has now become an important concern in most Chinese companies (Gao, 2009). Nonetheless, research in the field of CSR in China is limited considering the enormous size and the rapid growth of the Chinese economy. A number of studies have attempted to describe the current status of CSR developments in Chinese business world. A common finding of these studies is that the development of CSR in China is still in its early stages, but the concept is highly welcomed.

Some researchers claim that the attitude toward CSR in a society is highly dependent on its cultural background. Therefore, the findings of CSR in the western world might not be applicable in China due to the nature of Chinese culture. Xu and Yang (2010) investigate the conceptual dimensions of CSR in China and compare them with the CSR dimensions in western countries. They collect and analyze the survey data of 630 executives and business owners in China. Nine dimensions of CSR in China are derived, and three of these dimensions (employment, good faith, social stability and progress) are unique compared to CSR in western countries. They conclude that a new conceptual framework is needed to study CSR in China.

Chaudhri and Wang (2009) study CSR engagement and CSR communication in Chinese firms. They analyze a sample consisting of 86 firms and find that CSR activities are highly appreciated. For the sample firms, improving corporate reputation is the most important motivation of their CSR engagement, and disaster relief is the most frequently used practice among CSR activities. Corporate and internet media are the main channels of CSR communications for the sample firms. Jiang et al. (2012) review three different CSR practices in Chinese companies. Donation is found to be the major form of CSR for Chinese firms. Authors also argue that the idea of CSR is welcomed in China because of the cultural background. Song and Zu (2008) analyze survey data of 83 managers and find that the motivation for most managers to participate in CSR activities is economic profit. They further provide evidence that managers in weaker firms (small in size, state-owned, producing traditional products or located in poor regions) have higher CSR ratings. However, they also show that managers' CSR orientation is positively related to total sales of firms. Deshpande and Fu (2012) study the determinants of employee ethical behavior by analyzing survey data of 208 employees in a Chinese state-owned firm. They find that the ethical behavior is positively related to the climate of the firm, the ethical behavior of co-workers, and the ethical behavior of a successful manager.

Economic profit seems to be the major motivation for Chinese firms to engage in CSR activities. A stream of literature focuses on this issue and studies the relation between CSR activities of firms and financial performance. Positive relations between CSR activities and firm financial performance are found in general. Cheung et al. (2012) evaluate the CSR practices of the 100 largest Chinese companies from 2004 to 2007. They calculate the CSR scores for the sample firms according to the OECD's Principles of Corporate Governance. Using "oversee listing" and "state ownership" as instruments for the change in CSR scores, they find that both Tobin's Q and the market-to-book value of equity are positively related to the change in CSR. Ahn et al. (2010) study the relation between CSR activities and market valuation of firms in Asian emerging markets. They use the CSR scores calculated by Credit Lyonnais Securities (Asia) for 1188 Asian firms in the year of 2001, 2002, and 2004 as proxy for CSR activities of firms. They find that the CSR scores of firms are positively related to firms' market valuation in the same year. They also find a positive relation between current CSR scores and the firms' market valuation for the next year. He and Su (2010) analyze the relation between company philanthropy and profitability. They study the survey data of 3837 private firms in China in 2006. Donation dummy (whether a firm has donated more than 100,000 RMB) is used as a proxy for philanthropy activities, and ROA and ROE are used as proxies for firm profitability. They show that the donation dummy is positively related to both ROA and ROE. They further argue that the reason why Chinese private firms invest in philanthropy is due to property rights protection and political connection, because they find positive relations between donation dummy and R&D investment, and between donation dummy and the opportunities of merging SOEs (He and Su, 2010). Zhang et al. (2013) explore the relationship between CSR and financial performance by using the data of listed Chinese companies in Shanghai between years 2007 and 2011. Utilizing a systemic generalized method of moments (GMM) model, they conclude that prior CSR positively affect current financial performance and current financial performance in turn affects current CSR positively as well.

Many other financial characteristics of firms are also found to be related to a firm's CSR performance such as ownership structure, cost of debt financing, earnings management, and investor response. Li and Zhang (2010) examine the relationship between ownership structure and CSR performance by analyzing data of 692 Chinese manufacturing firms in 2007. They find that corporate ownership dispersion is negatively related to CSR for state-owned firms, while it is positively related to CSR for non-state-owned firms. They also show that firm characteristics such as firm size, profitability, leverage, employee size, and Tobin's Q are also related to the firms' CSR performance. Ye and Zhang (2011) study the relation between CSR and the cost of debt financing of Chinese firms. Their sample consists of 1387 firms in 2007 and 1446 firms in 2008. The ratio of charitable giving to sales is used as proxy for CSR and R&D intensity (intangible assets to total assets) and advertisement intensity (selling expenses to total sales) are used as instruments for CSR. They find a U-shaped relation between CSR and the cost of debt financing. Kang and Scholtens (2013) examine the relation between CSR activities and earning management. They collect the CSR scores of 139 firms in ten Asian countries from the Asian Sustainability Ratings report in 2009 and find that CSR scores are negatively related to earnings management activities in these Asian firms. Kong et al. (2011) explore the impact of firms' CSR activities on financial investors' behaviors. They examine the stock returns and net cash flows of 114 large Chinese firms pre- and post- the melamine contamination incident, which is treated as an exogenous event. They find that firms' CSR performance is not related to investor behavior before the exogenous event, while it has significant post-event effect and the effect is stronger for institutional investors. Analyzing the determinants of CSR, Cheung et al. (2012) find that total assets and being listed overseas are positively related to CSR, while leverage is negatively related to CSR.

Various studies investigate CSR from the customers' perspective, i.e. whether consumers are aware of a firm's CSR activities, how they perceive a firm's CSR practice, or whether they will reward the firm for its CSR activities. In general, these studies show that Chinese consumers are aware of the concept of CSR and tend to reward a firm for its CSR activities. Ramasamy and Yeung (2009) examine Chinese consumers' attitude toward CSR. Survey data of 134 subjects from Shanghai and 121 subjects from Hong Kong are collected and explored. They show that Chinese consumers are more supportive of CSR, compared to their counterparts in western countries. They also find that Chinese consumers are able to understand the Carroll's pyramid of firm's four responsibilities, with economic responsibilities being the most important one. Tian et al. (2011) investigate Chinese consumers' responses to a firm's CSR practices. They analyze questionnaire data of 1022 subjects collected in Shanghai and Wuhan. They find that Chinese consumers are highly aware of CSR activities and are inclined to transform good CSR record into purchase intention. Consumers are more likely to reward firms selling experience products for their CSR activities, compared to those selling search and credence products. Middle-aged consumers and consumers with mid-level income are found to be more likely to positively respond to CSR activities. Deng (2012) studies Chinese consumers' response to a firm's ethical behavior. Analyzing the survey data of 167 respondents, he finds that consumer's ethical awareness, ethical cognitive efforts, the perception of ethical fairness, motivation judgment, institutional rationality, and CSR-corporate ability affect consumers' responses to CSR.

In the last decade, environmental issues have attracted increased attention amid deteriorating environment due to business activity and emerged as a major research stream within CSR literature in China. For instance, Chun (2009) studies the employee attitudes at energy firms toward the environment. She surveys 472 workers in 7 Chinese energy companies and finds that employee values are positively related to environmental attitudes. Employees of state-owned firms are found to have lower employee values, and poorer attitudes toward the environment. Geng et al. (2008) investigate the effect of organizational size on the implementation of green supply chain management (GSCM) in China. They analyze the survey data from 209 Chinese manufacturing firms and find that the implementation levels of GSCM are higher for large- and medium-sized firms. Lai and Wong (2012) study the effect of adoption of green logistics management (GLM) on firm's operational performance. Analyzing the questionnaire from 128 Chinese manufacturing firms, they find that environmental management is positively related to operational performance. The adoption of GLM is found to have an impact on the environmental-operational performance relation. Ho and Lin (2011) study the factors of the adoption of green practices in Chinese logistics firms. They collect and analyze survey data of 322 logistic firms. They find that regulatory pressure, governmental and organizational support, human resource quality, and relative advantage of green practice are positively related to the adoption of green practices, while environmental uncertainty and the complexity of green practice are negatively related to the adoption of green practices.

As concerns related to CSR issues in China are on the rise, measurement and tracking progress has become a major stakeholder demand and an integral part of business. Moreover, the practice of CSR reporting is also extensively promoted and pushed by the government. As a result, CSR disclosure has been central for a number of studies concerning CSR in China. For instance, Du et al. (2012) analyze the factors affecting firms' environmental information disclosure decisions. They study a sample consisting of 2361 Chinese firms from 2006 to 2008, and find that state-owned firms, firms in environmentally sensitive industries, and firms with better reputation are more probable to disclose environmental information. For those firms who disclose environmental information, evidence shows that firms with better organizational image and reputation commit to higher level of disclosure. Gao (2009) evaluates the corporate social performance of the largest 100 Chinese firms by investigating their official websites. He argues that the CSR concept in China is quite new because many companies in his sample do not provide any CSR related information on their websites. He shows that Chinese firms are more concerned with economic issues than ethical and legal issues, and shareholder interests are mostly addressed in comparison to other stakeholders. Van Dolen et al. (2010) compare the CSR communication contents of the four largest Chinese retail companies with those of the four largest international retailers. They find that the CSR reports of Chinese retailers put more emphasis on the economic dimension, while the international retailers focus more on the product responsibility. Labor and environmental issues do not receive enough attention from both Chinese and international retailers. Cynthia et al. (2013) provide an overview of the CSR reporting requirements in China. Comparing the CSR reporting regulations and requirements in China with those in the west, they argue that the development of CSR reporting in China is at its preliminary stages and improvement is urgently needed.

A number of recent studies explore CSR disclosure in relation to investor reactions and organizational performance. Wang et al. (2019) investigate CSR disclosure and investor reactions by using data from 2010 to 2016 for the Chinese Mainboard and SME-GEM A-share companies. They utilize a methodology, where they combine a panel data analysis and an event study. Their results suggest that the mainboard investors judge social responsibility as a desirable feature, but SME-GEM investors do not exhibit such a mindset, which demonstrate that the Chinese multi-level capital market act as a medium that accommodates investors in accordance with their preference segments. They further illustrate that whereas the Chinese Mainboard investors evaluate and incorporate different types of CSR disclosure into their investment decisions, SME-GEM investors make decisions based on general disclosure. Moreover, the authors find that environmental concerns, especially "the pollution haze" exert a moderating effect on the investor preferences and rationality. Different segments are affected differently though. In the Mainboard market, investors evaluate CSR disclosure more positively and rationally. Yet, in the SME-GEM market, investors feel that CSR activities are useless but something big firms need to do. Still, the authors conclude that due to increasing environmental concerns and regulatory push, investor awareness and attention concerning CSR has spiked.

Kuo et al. (2012) study the general quality of CSR information disclosure. Reviewing 529 CSR reports of Chinese firms in 2008 and 2009, they show that only 17 percent of the companies in the sample have CSR reports that provide quantitative information on their CSR objectives, while the rest contain only qualitative description of CSR activities. Hence, the authors conclude that the CSR disclosure quality of Chinese firms is not ideal. In addition, they state that environmentally sensitive industries and state-owned firms are more committed to environmental information disclosure. In a more recent article Zou (2018) explores the relationship between CSR disclosure and corporate tax. Using the data of listed Chinese companies from 2009 to 2015, she finds that CSR disclosure leads to a decrease in corporate tax burden and improvements in the quality of disclosure further shrinks tax burden especially when the CSR disclosure is voluntary. She further suggests that private companies are more aggressive than state-owned enterprises in this practice and political connections enhance the negative impact of CSR disclosure on the tax burden. She interprets this finding in support of rent seeking behavior and claims firms do not always have altruistic motivations for CSR disclosure.

Chen et al. (2019) investigate the relationship between CSR disclosure and organizational performance. They use a sample of Chinese listed A share companies from 2011 to 2016. From a signaling theory perspective, the authors categorize CSR reports according to their content and explore the impact of contextual differences in signaling processes and their associated impact on economic returns in the given institutional environments. The authors find that reports that provide governance information has a significant and negative impact on financial performance and this negative impact is even stronger in less developed institutional settings. On the other hand, disclosure that focuses on output information has a significant and positive impact on financial performance and this impact is also stronger in less developed institutional settings. Moreover, their further analysis reveals that these findings only hold in mandatory disclosure samples. Along the same lines, Guo et al. (2019) investigate the reaction of Chinese A share market to CSR disclosure between years 2009-2016. Their results imply that market highly regards companies with high quality CSR reports and react negatively to the announcements of those with poor quality.

5.4 Hypotheses and Conceptual Model

In China, as we have established so far, the government is an important stakeholder in business and sits on top of the CSR pyramid by promoting and encouraging CSR activity. It specifically signals to firms that CSR reporting is a legitimate and essential business activity. In 2006, Hu Jintao administration announced the 11th Five-Year Plan for National Economic and Social Development, where the focus was a national vision based on the principles of a harmonious society and scientific development. Accordingly, since then the government has established a number of CSR reporting guidelines in order to curb the negative social and environmental impact of China's extensive economic growth in the last decade (See, 2009). However, there is significant variation in the amount of information disclosed on CSR activities, many lacking desired quality as most companies try to comply with the regulation but few intrinsically value CSR activities and disclosure (Marquis and Qian, 2013).

In our research, we would like to make the business case for CSR and demonstrate how CSR, specifically CSR disclosure quality and financial performance are related. In their recent study Vishwanathan et al. (2020) conduct a meta-analysis with all available empirical evidence on the relationship between CSR and corporate financial performance. Using a meta-analytic structural modeling on effect size data from 344 primary studies, they underline the importance of strategic CSR that brings out companies' core competences and conclude that such CSR activities positively affect financial performance through enhancing firm reputation, increasing stakeholder reciprocation, mitigating firm risk, and strengthening innovation capacity. They also point out that these mechanisms combined only account for the 20% of the CSR – financial performance relationship and call for future empirical research to develop an empirically informed, causal conceptualization of CSR.

Along with conceptualization of CSR, issue of causality between CSR and financial performance is also a source of heated debate. There are three streams of literature that investigate the causality of the relationship between CSR and financial performance. The first strand suggests that CSR positively influences financial performance. There are many studies in support of this view (e.g. Godfrey et al., 2009; Bhattacharya and Sen, 2003). The second stream basically states the opposite that firms, which perform better financially are able to invest more on "doing good by doing well" and this might result in improved CSR (Waddock and Graves, 1997), whereas firms that are in financial turmoil do not have the freedom to invest in CSR activities (Wang et al., 2016). There is empirical support for this view as well (e.g. Godfrey et al., 2009; McGuire et al., 1990).

These two strands of literature are brought together by Surroca et al. (2010), who propose that causation might run in both directions. Departing from previous work (Surroca et al., 2010; Waddock and Graves, 1997; Wang et al., 2016), we also propose that high quality CSR leads to improved financial performance and superior financial performance leads to better CSR in return. While specifically concentrating on CSR disclosure quality, we will take a resource-based view of the firm and utilize mainly legitimacy, stakeholder, and slack resources theories to explain this causation that runs both ways.

5.4.1 The effect of the CSR disclosure quality on financial performance

Digitalization has brought increased processing power and communication speed, which facilitate information and data sharing. In the era of digitalization stakeholders are greatly empowered through vast amount of information at their disposal and exercise immense power over corporations (Aksin-Sivrikaya and Bhattacharya, 2017). In such a business environment, intangible assets are increasingly perceived as the basis of competitive advantage for firms across the world (Bianchi, 2017; Haskel and Westlake, 2018; Manikas et al., 2019). Itami (1991) suggests that *invisible assets* refer to "a particular technology, accumulated consumer information, brand name, reputation and corporate culture" and are often the only real source of sustained competitive advantage. Gardberg and Fombrun (2006) suggest that intangible assets help companies overcome nationalistic barriers, facilitate globalization, and build local advantage. They argue specifically through corporate citizenship activities, global companies gain legitimacy, reputational capital, commitment, loyalty, and competitive advantage. These intangible assets act as a safety net in times of crisis and protect companies against downside risk (Fombrun et al., 2000).

Both the RBV framework and stakeholder theory encourage investments in CSR activities that capture the loyalty and affection of multiple stakeholders, which in turn boost firms' internal intangible resources such as employee morale, knowledge, innovation, and corporate culture as well as external intangible resources such as corporate reputation and goodwill. Investment in CSR and its proper disclosure play a crucial role in the accumulation of intangible assets and sustaining a favorable competitive position (Briones Peñalver et al, 2018; Khan et al, 2019).

In China and anywhere else in the world, governments are in control of critical resources and play a substantial role in determining companies' competitive positions through regulations and tax policies. Hence, companies try to actively manage their relationships with governments and engage in political activities such as lobbying and political donations in an attempt to reduce uncertainty and shape government agenda on key issues. Adherence to government signals help companies gain political legitimacy in the eyes of the governments and this in turn broadens their influence and reach (Baron 1995; Hillman et al., 2004). Research on political strategy suggests that firms continuously seek present or future resources from governments and in this context, political legitimacy can be perceived as a strategic resource, which facilitates firms' access to government resources (Li and Zhang, 2007; Marquis and Qian, 2013). This resource is especially important in emerging countries, where weak institutions may encourage firms to rely on informal mechanisms since it is quite difficult to interpret governments' policies and determine how to respond to them (La Porta et al., 1998; Marquis et al., 2011). Through this strategic resource, Oliver and Holzinger (2008) suggest that companies can drive as much value as possible including assuring legitimacy from the perspective of the government. Also, as Marquis and Quin (2014) point out, we argue that there are financial gains to be made by responding to government signals and in turn, facilitate access to precious government resources.

Legitimacy theory is not limited to government signals but also extends to the other types of stakeholder pressures and in this sense, it is very much related to the stakeholder theory. In this framework, the value of the firm not only depends on explicit claims of shareholders but also implicit claims of other stakeholders (McGuire et al., 1988). Stakeholders are engaged in implicit contracts with companies and if companies fail to address their claims, these parties may attempt to transform their implicit agreements into explicit claims, which could potentially mean higher costs for companies (Wang et al, 2016).

Instrumental stakeholder theory is a branch under stakeholder theory and proposes that stakeholders are a part of the business environment that firms operate and they must be managed to assure revenues, profits and returns to shareholders (Berman et al., 1999). Paying attention to stakeholder needs assist firms in circumventing decisions that may lead stakeholders to hinder corporate objectives. Just as the legitimacy framework implies, this possibility arises because it is the stakeholders, who control resources that can facilitate the implementation of corporate decisions (Salancik & Pfeffer, 1978).

There are also reputational benefits to effective management of stakeholders, which could translate into financial benefits. It is well established that employees display greater commitment to firms who are known to invest in human capital (Dutton et al., 1994) and such firms also attract the most talented individuals in the job market (Greening and Turban, 2000; Backhaus et al., 2002). In a recent natural field experiment, Hedblom et al. (2019) find that when a firm advertises work as CSR-oriented, the number of applications increases by 25% and those who apply are more productive and produce higher quality work than the rest in the labor pool. Furthermore, companies with superior social performance are rewarded by customers through increased demand and willingness to pay premium prices for the products and services they offer (Bhattacharya and Sen, 2003). Moreover, new generation of investors are particularly willing to invest in firms who engage in CSR initiatives (Graves and Waddock, 1994; Johnson and Greening, 1999; Barnett and Salomon, 2006). Similarly, Zhang et al. (2019) also show that CSR is becoming an institutionalized practice among firms in a Chinese context. They suggest that by conforming to basic principles of CSR makes firms appear legitimate in the analyst community, and differentiation of CSR portfolio leads to a more favorable analyst recommendation and higher market value.

As CSR becomes instrumental in value creation processes and corporate strategy, there is an increasing focus on the disclosure of non-financial information. This focus is both regulatory and demand driven (Arvidsson, 2011). Today it is widely accepted that the value of a business activity is no longer dependent on material or financial assets but on intangible ones. Therefore, stakeholders, investors in particular, have a rapidly growing demand for relevant and more penetrating company information in an attempt to understand the "real" value of a business (Zambon and Bergamini, 2016).

In the empirical literature, the impact of CSR disclosure quality on financial performance has been explored quite extensively (e.g. Anderson and Frankle, 1980; Belkaoui, 1976; Bowman 1978, 1984; Shane and Spicer, 1983; Spicer, 1978). Even though listed scholars have adopted different profitability measures, they all report a positive relationship between the two. Furthermore, investors pay more attention to CSR oriented firms and while rewarding such firms for their CSR activities, they utilize signals such as CSR reports and inclusion in sustainability indices. For instance, in their recent paper Durand et al. (2019) focus on Dow

Jones Sustainability World Index (DJSI). Today, more and more international companies establish information systems, issue CSR reports and pay external CSR assurance providers to audit CSR information (Ernst & Young and Global Reporting Initiative, 2014). CSR agencies use this information to evaluate companies' CSR activities (RobecoSAM, 2017) and consequently, this raises the question whether the investment that the firms make in CSR activities yield positive returns in the market place. There is support in research that investors respond to CSR activities. High quality CSR firms tend to engage in voluntary disclosure, which helps reduce information asymmetries and agency costs. This eases access to capital as debtholders, institutional investors, and other equity holders are more willing to engage in contracts with such firms (Cheng et al., 2014; Dhaliwal et al., 2011; Vishwanathan et al. 2020). Similarly, Durand et al. (2019) find that the firms that are added to DJSI enjoy better analyst coverage and hence, an increase in equity holdings of long-term investors. They report, even though small, positive and significant increase in market value over time. Therefore, we propose that:

Hypothesis 1: High quality reports lead to superior financial performance.

As established in the literature, there are a great range of factors that has an impact on financial performance. One of them is past financial performance. Financial performance is known to be a dynamic process and current firm performance is driven by past performance (Wintoki et al., 2012). In many studies, lagged profitability is found to be a significant determinant of current profit margins (e.g. McDonald, 1999; Vu et al., 2018). Therefore, to control for "dynamic endogeneity", we will utilize past performance as an exploratory variable in the empirical part. In consistency with other empirical studies, we expect that past financial performance has a positive impact on the current financial performance.

Size of the firm is also one of the major determinants of financial performance (e.g. Ito and Fukao, 2010; Steinerowska-Streb, 2012). It is quite common to use firm size as a determinant variable of economic, social and environmental practices (Martínez-Ferrero and Frías-Aceituno, 2015); hence, the bigger the firm, the higher the expected returns.

Ownership concentration is a crucial corporate governance mechanism that helps to limit agency problems arising from the separation of ownership and control (Shleifer and Vishny, 1986; Nguyen et al., 2015). Thus, higher ownership concentration is expected to have a positive influence on financial performance. For example, Lloyd et al. (1987) suggest that the company market value-to-sales ratio is greater for companies with concentrated ownership. Leech and Leahy (1991) reach the same conclusion by using a sophisticated index of owner influence as a function of concentration.

Additionally, there is empirical evidence that executive remuneration is a positive influencing factor on corporate strategic decisions and financial performance in areas such as innovation (Balkin et al., 2000), outward foreign direct investment (Liu et al., 2014), knowledge sharing in multinational corporations (Fey and Furu, 2008), and financing decisions (John and John, 1993).

Risk has also an important role to play. Specifically, beta, which we will also use as a proxy for risk, represents the level of systematic risk. This variable has been used as a control in most studies that evaluate financial performance and we would expect a negative influence of increased systematic risk on financial performance (Martínez-Ferrero and Frías-Aceituno, 2015).

It is further established that being listed on a foreign exchange in a more developed economy bring firms future growth opportunities (Ding et al., 2010). Theoretically speaking, a developed country provides a better institutional environment, which means well-structured property rights, a functioning judicial system, and voluntary standards to complement this framework (North, 1990). Transaction costs are lowered through efficient economic institutions and long-term growth of the economy and firms are facilitated since it is easier for firms to engage in long-term cooperation with significant business partners, large customers and suppliers. This in turn improves firms' image and visibility and result in marketing and public relations benefits (Saudagaran and Biddle, 1995). Moreover, a larger and more internationalized stock market enables firms to access capital in an easier fashion and reduces cost of capital significantly. Coffee (2002) proposes that being cross-listed in a stock market with better regulation, reduces the cost of capital in the domestic stock market. Therefore, intuitively it makes sense for companies from developing countries to be listed in a foreign exchange for financial and reputational benefits and it is also a reflection of a mindset that focuses on long-term benefits rather than short-term (Ding et al., 2010).

Last but not least, in many economies, there is significant government stake in businesses, which serves as a source of legitimacy and positional advantage (La Porta, 1999). This is also the case for China, where the government is both the key policy maker and holder of substantial ownership stakes in many firms. Therefore, privately owned firms are more inclined to gain legitimacy as a strategic need and since SOEs already have political legitimacy and enjoy the considerable support and protection of the government agencies, they do not have the immediate need to engage in CSR activities such as reporting (Li and Zhang, 2007). Hence, we would expect private companies to invest more in quality CSR disclosure in order to gain the goodwill of the government agencies and regulators.

5.4.2 The effect of financial performance on the CSR disclosure quality

In the case of China, there is reason to believe that financial performance comes first and disclosure quality follows suit due to pressure from outside stakeholders as indicated before (i.e. government regulations, stock exchanges, investors, foreign competitors / suppliers / customers).

In the previous section, we mostly utilize legitimacy and stakeholder theories, which investigate external pressures that influence corporate strategy, whereas here, we will employ a resource-based view and make use of slack resources theory, which explore internal resources that are at companies' disposal when they are to engage CSR activities (Cormier et al., 2005).

In the RBV framework, firms maintain competitive advantage through building organizational capabilities internally. These organizational capabilities are primarily intangible and firm specific. They are valuable, rare, inimitable, and non-substitutable (Barney, 2000). By making use of internal resources, firms translate these capabilities into core competencies. Core competencies in turn, enable firms fit and function in their business ecosystem (Chen et al., 2016). In a longitudinal study, Bansal (2005) shows that both external and internal factors contribute to the type of CSR activities that the companies engage in and how they implement them. By applying the RBV, Clarkson et al. (2011) put forward that companies with greater financial resources and superior financial performance are more likely to take on proactive environmental projects. Whereas, Rahman Belal and Owen (2007) show that poor corporate performance leads to non-disclosure of CSR.

The effect of financial performance on the CSR disclosure quality is quite well explored in the empirical literature. Research indicates that high performing firms and firms with slack resources are more liberal in their ability to engage in corporate social activities (Wang et al., 2008). Profitable companies enjoy more autonomy and flexibility to initiate and report wide-ranging CSR indicators to stakeholders (Khan, 2010).

It is also proposed that a better prior financial performance is associated with improved subsequent CSR (Wang et al., 2016). This indicates a delay in realizing the benefit of slack resources since it could take some time before profits earned today can translate into better disclosure. There is also empirical evidence that current CSR disclosure quality is positively affected by past financial performance (e.g. Qui et al., 2016). We will explore the impact of both the past and present financial performance on the CSR disclosure quality and hence, we hypothesize:

Hypothesis 2: The past and current financial performances have a positive impact on the CSR disclosure quality.

Furthermore, we also control for other factors that play a role towards a sound CSR disclosure practice. Company size is such a factor, which is perceived to have a positive impact on the CSR disclosure quality. Large companies are thought to assume more activities and have greater impact on society (Trotman and Bradley, 1981; Andrew et al., 1989). Furthermore, larger companies face greater scrutiny from the society; hence, they would be under greater pressure to report their CSR activities to legitimize their business (Cowen et al., 1987).

Moreover, one would expect that increased transparency and adoption of the GRI (Global Reporting Initiative) framework would have a positive impact on the CSR reporting quality. The GRI's goal is to develop a reporting framework that will enhance sustainability reporting and provide a standard across the globe. Their guideline has the potential to improve the quality of information reported by companies about their environmental, social, and economic performances. Therefore, we believe that the adoption of the GRI framework and increased transparency as a consequence, will lead to better CSR reports in rigor, comparability, and auditability (Willis, 2003).

Ownership structure is also believed to play a role in the CSR disclosure quality. Intuitively, highly concentrated ownership implies that minority shareholders are powerless against the actions of large shareholders thus; CSR concerns can potentially be overlooked. However, the literature provides mixed results when the relationship between ownership concentration and CSR disclosure is concerned. Some studies found no relation (e.g. Halme and Huse, 1997;

Ghazali and Wheetman, 2006; Alsaeed, 2006) and others found a negative relationship (e.g. Khan et al., 2013).

Tricker (1984) illustrates that CSR reporting is a strategy to close the perceived legitimacy gap between management and shareholders via independent directors. Hence, board structure, especially the number of independent directors is perceived to be a driver of CSR disclosure quality since, independent directors are seen as a check and balance mechanism ensuring that the companies act in the best interest of all stakeholders and advocating for adequate public presentation (Khan et al., 2013).

Executive remuneration is another factor that has a potential impact on the CSR disclosure quality. Firms are eager to attract the most talented managers in the market place. Pay package is one of the most important elements in attracting executives with talent and expertise. If we assume that executive pay is an indication of talent and expertise, we would expect more talented managers with higher expertise to be paid more. In the literature, executive expertise is usually associated with higher quality in disclosure (Felo, Krishnamurthy and Solieri, 2003). It is also quite established that the executives are the ones who determine the level and quality of disclosure (Collison et al., 2003; Martin and Hadley, 2008). Therefore, we would expect a positive relationship between executive pay and CSR disclosure quality.

Research in voluntary disclosure suggests that companies audited by the Big 4 audit firms disclose more information than their counterparts audited by non-Big 4 firms (Andrikopoulos and Diakidis, 2007; Fernandez et al., 2012). Furthermore, presence of certification programs by independent agencies and certifications related to environmental impact and product safety are used to assess the quality of disclosure (e.g. Clarkson et al., 2008; Sutantoputra, 2009). Thus, we expect that auditing by the Big 4 audit firms and third-party assurances through certifications have a positive impact on the CSR reporting quality.

Risk is another factor that affects CSR behavior of a company. Firms who enjoy low systematic risk have more stable stock market returns. Since economic concerns influence decision making processes in regard to CSR activities, stable financial performance should improve a firm's ability to commit to certain CSR initiatives (Roberts, 1992). In addition, research shows that CSR activities can facilitate a firm's access to capital and improve employee morale and productivity (McGuire et al., 1988). Market participants may perceive

CSR oriented firms as better managed, and therefore, less risky. Hence, we believe firms with low beta values are expected to have higher levels of corporate social responsibility disclosure.

Moreover, there is empirical evidence that the multiple listings of a firm (Haniffa and Cooke, 2005) or specifically a stock market listing (Goncalves et al., 2014) positively influence disclosure in developing countries. Likewise, disperse corporate ownership, especially by investors, who care about CSR, intensifies pressure for management to disclose CSR activities (Ullmann, 1985). Therefore, as previously stated, if ownership concentration increases we expect a negative impact on CSR disclosure (e.g. Khan et al., 2013). Similarly, we would expect state ownership to affect the quality of CSR disclosure negatively. As legitimacy theory suggested, the state ownership provides legitimacy and firms do not feel the need to go the extra mile. However, there are some studies, which reported a positive relationship too (e.g. Amran and Devi, 2008; Ahmed Haji, 2013).

CSR deficiency information is more important in emerging economies, such as China, than in developed economies since CSR practices of Chinese firms generally lag behind of those in developed economies (Ip, 2009). China has been experiencing a high paced growth for decades now and during this fast growth period, many environmental and safety concerns have arisen (Wang et al., 2018). In the face of both local and international scrutiny, for Chinese companies there is an urgent need to recognize the moral, legal and financial welfare of employees and improve employee safety and health. In their study Dong et al. (2014) suggest that achieving this objective is directly related to the level of CSR disclosure. The lack of deficiency information and, hence, the positive biased CSR disclosures, perceived to be greenwash by stakeholders and jeopardizes the usefulness of the CSR information (Chen and Chang, 2013). These biased reports can misguide investors and yield in loses. When CSR deficiencies are disclosed, informational risk is reduced, which has the potential to reduce the cost of equity capital (Jin et al., 2019). Publishing transparent and complete CSR reports increases mutual understanding between the management and employees, which boosts employee loyalty (Guo et al., 2009). Moreover, if firms fail to meet certain stakeholder expectations, reporting acts as a mechanism that enables stakeholders to track improvements in the given context and help companies defend themselves against future attacks (Shabana et al., 2017). Hence, we have reason to believe that increased transparency leads to higher quality disclosure.

Industry is generally believed to play a role both in CSR disclosure and financial performance. There is evidence in the developing countries context that industry plays a role in determining the nature of CSR disclosure (e.g. Gocalves et al., 2014; Kansal et al., 2014), however, there are some studies that found the role to be an insignificant one (Alsaeed, 2006; Monteiro and Aibar-Guzmán, 2010).

All expected relationships and our hypotheses are depicted in *Figure 5.1*. An arrow indicates a direct relationship between the variables, whereas absence of an arrow implies that there is no direct relationship. Parameters to be estimated are the path coefficients of the proposed relationships.

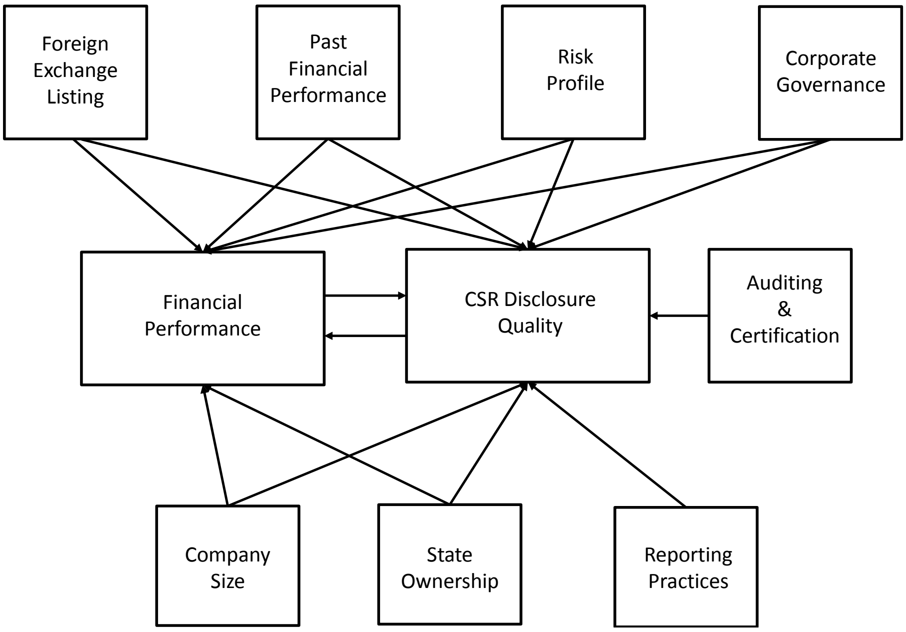

Figure 5.1: **A** conceptual model of CSR disclosure quality and financial performance

5.5 Data and Methodology

In putting together our database for the present study, we largely rely on "Gold Bee Corporate Responsibility Assessment System", which has been developed by the *CSR Reporting Research Group* at the WTO Guide CSR Development Center. Through this database, the group's aim is to promote the concept of CSR and encourage high quality CSR disclosure in China. In light of expert consultations, the research group evaluated the overall state of CSR reporting in China in terms of structural completeness, substance, comparability, reliability, readability. As a result, an aggregate *CSR disclosure quality score* is calculated for each firm in the sample (CSR Reporting Research Group, 2011). We have combined the disclosure quality score from the assessment system with various indicators of corporate governance, reporting practices, financial performance, and other company specific features. We end up with an unbalanced panel, which is composed of 555 publicly listed Chinese companies with observations from 2009 to 2015 but with gaps. After a list wise deletion of missing observations, we are left with 2387 observations in total.

For treatment of panel data like ours, panel models are good at dealing with unobserved unit-level heterogeneity, selection bias related to unobserved unit-level variables and can handle multi-wave panels efficiently via pooling. However, they are lacking in reciprocal causality, measurement error and dynamic processes in a causal system. Through generalized structural equation modeling (GSEM) approach, we are able to explicitly model the dynamics via lagged variables, account for reciprocal causality and measurement error and incorporate unobserved heterogeneity when needed. Furthermore, we are able to test the fit of alternative 'nested' models (Bollen and Brand, 2010).

Traditional structural equation modeling (SEM) consists of a set of linear equations that allows for simultaneous testing of two or more relationships among observable and/or latent variables (Ketchen *et al.*, 2004). SEM is unique in its ability to simultaneously explore dependence relationships in which a dependent variable could potentially become an independent variable in subsequent equations within the same analysis (Jöreskog and Sörbom, 1996). This applies to GSEM as well.

The relationships that are presented in our conceptual model are directly translated into two equations, which are theoretically justified and simultaneously estimated:

Equation 1

In the first equation the dependent variable is financial performance. We employ earnings per share (EPS), which is a profitability measure and frequently used in the literature. It is calculated as the monetary value of a company's profit divided by its outstanding shares of common stock. CSR disclosure quality is one of the independent variables. The proxy we use for CSR disclosure quality is the disclosure quality score calculated by the CSR Reporting Research Group. Past financial performance is another independent variable. As we have indicated, we know that current financial performance largely determined by the past financial performance. We use the first lag of EPS here. Corporate size is a traditional determinant of financial performance. Here, we use total assets in natural logarithm for corporate size. Executive remuneration is the total pay of top 3 executives. Similar to total assets, executive remuneration is in natural logarithm. State ownership is another factor at play. For state ownership, we divide state stock holdings by total stock holdings. Another variable related to ownership structure is ownership concentration. It is the sum of shareholding percentage of top 10 shareholders. Foreign exchange listing is a dummy, which is equal to 1 when a company listed in a foreign country. For risk profile, we use beta, which is a measure of a firm's systematic risk. Beta is the covariance between returns on a given firm's common stock and market portfolio, divided by the variance of the market portfolio (Copeland et al., 1988).

$EPS_{it} = \alpha_0 + \alpha_1 EPS_{it-1} + \alpha_2 \text{Total assets}_{it} + \alpha_{3D} DQS_{it} + \alpha_4 \text{Beta}_{it} + \alpha_5 \text{State ratio}_{it} + \alpha_6 \text{Ownership concentration}_{it} + \alpha_7 \text{Executive remuneration}_{it} + \alpha_8 \text{Foreign exchange listing}_{it} + \epsilon_{EPS,it}$

Please note that for simplicity this baseline equation is at the firm level and does not account for individual heterogeneity, but we also explore multilevel models at later steps and factor in random intercepts and slopes.

Equation 2

Whereas CSR disclosure quality score was an independent variable in the first equation as we make an attempt to explain financial performance, in the second equation, CSR disclosure quality score becomes the dependent variable. To explore the recursive relationship between financial performance and CSR disclosure quality, EPS, which was the dependent variable of the previous equation, becomes an exploratory variable in this equation. Along with current EPS, we also make use of three lags of EPS as we suspect a lagged effect of financial performance on CSR disclosure quality.

Common exploratory variables that we also use in the second equation are total assets, beta, state ratio, foreign exchange listing, ownership concentration, and executive remuneration. In addition to these, we use dummies Audit by the Big 4, which is equal to 1 when the firm is audited by the Big 4 audit companies; GRI, which is equal to 1 when the company has adopted GRI reporting standards; Certification, which is equal to 1 when the company has third party certifications; Work safety, which is equal to 1 when the company reports on its safety practices; Deficiencies, which is equal to 1 when the company reports on deficiencies related to the CSR activities. Finally, we have the number of independent directors, which is the number of outside directors that have no relation to the management of the firm.

$DQS_{it} = \beta_0 + \beta_1$ EPS + β_2 EPS_{it-1} + $\beta_3 EPS_{it-2}$ + β_4 EPS_{it-3} + β_5 Total $assets_{it}$ + β_6Independent $directors_{it}$ + β_7Ownership $concentration_{it}$ + β_8Executive $remuneration_{it}$ + $\beta_9 GRI_{it}$ + β_7Audit $big4_{it}$ + $\beta_{10}$$Deficiencies_{it}$ + $\beta_{11}$$Certification_{it}$ + β_{12}State $ratio_{it}$ + $\beta_{11}$$Beta_{it}$ + β_{12}Work $safety_{it}$ + β_{13}Foreign exchange $listing_{it}$ + β_{14}Number of independent $directors_{it}$ + $\epsilon_{DQS,it}$

Please note that for simplicity this baseline equation is at the firm level and does not account for individual heterogeneity, but we also explore multilevel models at later steps and factor in random intercepts and slopes.

5.5.1 Data summary and correlations

A summary of the pooled data is provided in *Table 5.1*. Chinese companies are typically criticized for their low-quality CSR reports (Marquis and Qian, 2013). This criticism also finds support in our data. We can already observe that the average company does not perform well when the quality of the CSR reports is concerned. The mean score is 46.55 (out of 100). We see overachievers as well as laggers in the sample (the score ranged between 3.10 and 91.09).

Table 5.1: Data summary

Variable	Mean	Std. Dev.	Min.	Max.	Obs.
Disclosure quality score	46.546	14.201	3.100	91.087	2,387
Total assets (CNY)	2.50×10^{11}	1.57×10^{12}	5.26×10^{8}	2.22×10^{13}	2,387
Remuneration of top 3 executives (CNY)	2840024	3072599	225100	3.44×10^{7}	2,387
Ownership concentration in % (Top 10)	58.389	17.120	12.707	98.458	2,387
Number of independent directors	3.594	0.893	1	8	2,387
Earnings per share	0.524	0.726	-6.024	5.696	2,387
Beta	1.078	0.267	0.063	2.054	2,387
State ratio	0.056	0.140	0	0.760	2,387
Foreign exchange listing	0.035	0.183	0	1	2,387
Audit by the Big 4	0.204	0.403	0	1	2,387
Certification	0.042	0.201	0	1	2,387
GRI reporting	0.207	0.405	0	1	2,387
Disclosure of work safety	0.799	0.401	0	1	2,387
Disclosure of deficiencies	0.155	0.362	0	1	2,387

Firms in our sample largely vary not only in terms of their disclosure quality scores but also sizes, ownership structure and concentrations, corporate governance and reporting practices, risk profiles, and financial performances. As presented, firms greatly differ in total assets, executive remuneration and EPS with sizeable standard deviations. Mean number of independent directors is about 3.59. State's stock holdings are quite low and mean percentage of the total holdings of top 10 shareholders is 58.39. A large chunk of companies is quite volatile with beta well over 1. Not too many companies in our sample are audited by the 'Big 4' and very few rely on third party assurance through certifications. Moreover, GRI reporting framework has not been adopted by many. Even though most of the companies report their practices on safety, fewer companies disclose their deficiencies in their CSR reports and only a small number of them are listed on foreign stock exchanges. Correlations are presented in *Table 5.2*. Even though overall numbers vary from a low of -0.20 to a high of 0.78, we largely observe moderate or little correlation among variables.

Table 5.2: Correlations

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Disclosure quality score	1																
2. Total assets	0.20	1															
3. Remuneration of top 3 executives	0.17	0.13	1														
4. Ownership concentration (Top 10)	0.18	0.24	0.00§	1													
5. Number of independent directors	0.19	0.31	0.23	0.12	1												
6. Earnings per share	0.08	0.09	0.34	0.13	0.16	1											
7. Earnings per share (lag 1)	0.08	0.08	0.32	0.14	0.14	0.78	1										
8. Earnings per share (lag 2)	0.06	0.05	0.25	0.11	0.13	0.64	0.77	1									
9. Earnings per share (lag 3)	0.07	0.03§	0.22	0.09	0.12	0.54	0.63	0.74	1								
10. Beta	-0.13	-0.15	-0.04	-0.16	-0.08	-0.13	-0.08	-0.05	-0.05	1							
11. State ratio	-0.01§	-0.04	-0.07	0.18	0.07	0.00§	-0.03§	-0.01§	-0.04†	-0.00§	1						
12. Foreign exchange listing	0.18	0.14	-0.02§	0.28	0.09	0.02§	0.01§	-0.01§	-0.03§	-0.03§	0.03§	1					
13. Audit by the Big 4	0.27	0.29	0.31	0.33	0.26	0.24	0.22	0.16	0.13	-0.11	0.03§	0.27	1				
14. Certification	0.29	0.48	0.18	0.19	0.27	0.15	0.13	0.09	0.07	-0.04	-0.05	0.14	0.29	1			
15. GRI reporting	0.45	0.28	0.19	0.28	0.26	0.12	0.11	0.09	0.06	-0.09	0.05	0.25	0.33	0.37	1		
16. Disclosure of work safety	0.06	-0.13	-0.20	0.04†	-0.09	-0.08	-0.06	-0.04†	-0.03	-0.04†	0.05	0.06	-0.04	-0.07	0.05	1	
17. Disclosure of deficiencies	-0.14	-0.06	-0.10	-0.08	-0.09	-0.05	-0.02§	0.01§	0.02§	-0.01§	0.01§	-0.06	-0.15	-0.08	-0.11	-0.01§	1

Notes: All significant at the 0.05 level unless stated otherwise. (†$p < 0.10$, § if insignificant)

5.6 Results

Table 5.3 presents the post-estimation results for the baseline models that we have estimated. We start off with a small model, where we do not include any variables related to corporate governance, reporting or risk. We expand the model step by step and test whether it makes sense to do so. Once we decide on the full model, we also test whether including random intercepts and random slopes significantly improve the model.

Table 5.3: Postestimation (baseline models)

	1	2	3	4	5	6	7	8
AIC	22059.86	22058.91	22044.43	21994.91	21994.54	21939.02	21645.47	21645.99
BIC	22106.08	22116.69	22113.77	22075.8	22086.98	22043.02	21784.14	21813.55
LR Test								
LR χ^2	-	4.94	18.48	53.53	4.37	59.51	305.56	9.48
p-value	-	0.08	0.00	0.00	0.11	0.00	0.00	0.09

We evaluate our models with respect to Akaike's and Schwarz's Bayesian information criteria and also perform a likelihood-ratio (LR) test for each alternative model. For Akaike's and Schwarz's Bayesian information criteria (AIC and BIC, respectively), given two models, the smaller value is considered a better fit. For example, *Model 2* has an AIC of 22,058.91, which is slightly smaller than the value for *Model 1* (22,059.86). Hence, one can claim that *Model 2* is superior to *Model 1*. Same goes for BIC. In the LR-test, we compare two models and a significant test is in favor of the alternative model. For instance, *Model 4* is preferable to model 3 since p-value is 0.0 with χ^2 53.53 (Stata, 2015). However, *Model 5* does not make a significant improvement to *Model 4* (p-value is 0.11 with χ^2 4.37) but here, we make an intuitive call and keep ownership concentration since it makes theoretical sense.

Table 5.4: Generalized SEM (baseline models)

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
EPS ←								
DQS								0.00§
EPS_{-1}	0.82	0.83	0.83	0.82	0.82	0.79	0.79	0.79
Total assets	0.03	0.03	0.03	0.03	0.03	0.01†	0.01†	0.00§
State ratio		0.11§	0.11§	0.11§	0.12†	0.16	0.16	0.16
Foreign exchange listing			-0.04§	-0.04§	-0.03§	0.00§	0.00§	-0.00§
Beta				-0.18	-0.19	-0.18	-0.18	-0.17
Ownership concentration (Top 10)					-0.00§	-0.00§	-0.00§	-0.00§
Remuneration of top 3 executives						0.11	0.11	0.10
DQS ←								
EPS								-2.36§
EPS_{-1}								0.61§
EPS_{-2}								-0.48§
EPS_{-3}								1.25
Total assets	3.04	3.05	2.85	2.78	2.70	2.49	0.98	0.99
Beta				-5.05	-4.81	-4.73	-4.09	-4.57§
State ratio		-2.99§	-3.16 †	-3.14§	-3.71†	-3.32†	-3.18†	-2.72§
Foreign exchange listing			6.50	6.51	5.98	6.33	3.15	3.12
Ownership concentration (Top 10)					0.03†	0.03†	-0.00§	-0.00§
Remuneration of top 3 executives						0.91	1.04	1.52§
Audit by the Big 4							0.89§	1.12§
GRI reporting							10.61	10.55
Certification							6.82	7.18
Disclosure of work safety							2.80	2.78
Disclosure of deficiencies							-2.62	-2.65
Number of independent directors							0.11§	0.11§
Var(e.EPS)	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Var(e.DQS)	173.45	173.27	171.97	170.17	169.96	169.60	149.28	149.00

Notes. Constants and error covariances are estimated but not reported; remuneration of top 3 executives, and total assets are in natural logarithms; all estimations significant at the 0.05 level unless stated otherwise (†$p < 0.10$, § if insignificant).

Table 5.4 presents estimation results of the baseline models. By following these results, we arrive at *Model 8*. In the EPS equation, we find that past EPS, state ratio, and remuneration of top 3 executives have a positive and significant impact on the current financial performance at the 0.05 level. Whereas, beta has a significant negative effect on the current financial performance at the 0.05 level, disclosure quality score seems to be insignificant.

In the disclosure quality score equation (DQS), we observe that past financial performance has a significant positive impact on the third lag at the 0.05 level. Similarly, total assets, foreign exchange listing, GRI, third party assurances through certifications, disclosure of work safety considerably enhance the quality scores and they seem to be the major drivers. We also observe that when companies report deficiencies, their quality score comes down significantly.

However, *Model 8* is not our final model as we would like to estimate models, which account for unit level heterogeneity. We would like to see if we need to make use of random slopes and intercepts. GSEM methodology is computationally intensive and we have come across convergence problems continuously. Therefore, we go one step at a time and try to cover every possibility next.

In *Table 5.5* we check whether it is necessary to include a random intercept in our model in the industry level and company level. We departed from *Model 8* and have estimated many variations of *Model 8*. *Model 9* is an extension with a random intercept at the company level in the DQS equation. The variance of the intercept is 17.32, which is quite large and gives us reason to believe that it makes sense to include an intercept at the company level in the DQS equation. Then we move on to *Model 10*, where we introduce a random intercept at the company level in the EPS equation. However, its variance is very small and hence, we decide to discard it. We repeat the same exercise with different combinations of intercepts at the industry level and company level but the variances turn out to be so small that it does not make much sense to exhaust the program with the estimation of these intercepts. Therefore, we come to the conclusion that it only makes sense to include random intercept at the company level in the DQS equation which corresponds to *Model 9*.

Table 5.5: Generalized SEM (random intercept)

	9	**10**	**11**	**12**	**13**	**14**	**15**
EPS ←							
DQS	0.004	0.004	0.002§	0.002§	0.002§	0.004	0.002§
EPS_{-1}	0.79	0.79	0.79	0.79	0.79	0.79	0.79
Total assets	0.00§	0.00§	0.01§	0.01§	0.01§	0.00§	0.01§
State ratio	0.17	0.17	0.16	0.16	0.16	0.17	0.16
Foreign exchange listing	-0.02§	-0.02§	-0.01§	-0.01§	-0.01§	-0.02§	-0.01§
Beta	-0.16	-0.16	-0.17	-0.17	-0.17	-0.16	-0.17
Ownership concentration (Top 10)	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§
Remuneration of top 3 executives	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Random intercept EPS [level:id]		1 (cons.)					1 (cons.)
Random intercept EPS [level:ind]			1 (cons.)		1 (cons.)	1 (cons.)	
DQS ←							
EPS	-2.59§	-2.44§	-2.36§	-2.35§	-2.35§	-2.64§	-2.34§
EPS_{-1}	0.21§	0.10§	0.61§	0.61§	0.61§	0.25§	0.59§
EPS_{-2}	-0.31§	-0.31§	-0.48§	-0.48§	-0.48§	-0.31§	-0.48§
EPS_{-3}	1.24	1.23	1.25	1.25	1.25	1.24†	1.24
Total assets	1.30	1.30	0.99	0.99†	0.99	1.30	0.99
Beta	-4.83§	-4.80§	-4.57§	-4.57§	-4.57§	-4.84§	-4.56§
State ratio	-4.00§	-4.02§	-2.72§	-2.72§	-2.72§	-3.99§	-2.73§
Foreign exchange listing	3.17†	3.17†	3.12	3.12	3.12	3.17†	3.12
Ownership concentration (Top 10)	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§
Remuneration of top 3 executives	1.84§	1.82§	1.52§	1.52§	1.52§	1.84§	1.52§
Audit by the Big 4	0.96§	0.96§	1.12§	1.12§	1.12§	0.96§	1.12§
GRI reporting	9.69	9.69	10.55	10.55	10.55	9.69	10.55
Certification	6.46	6.45	7.18	7.18	7.18	6.46	7.18
Disclosure of work safety	2.31	2.31	2.78	2.78	2.78	2.31	2.78
Disclosure of deficiencies	-2.46	-2.46	-2.65	-2.65	-2.65	-2.46	-2.65
Number of independent directors	-0.09§	-0.09§	0.11§	0.11§	0.11§	-0.09	0.11§
Random intercept DQS [level:id]	1 (cons.)	1 (cons.)				1 (cons.)	
Random intercept DQS [level:ind]				1 (cons.)	1 (cons.)		1 (cons.)
Var(Random intercept DQS [level:id])	17.32	17.30				17.33	
Var(Random intercept EPS [level:id])		1.06e-42					4.99e-36
Var(Random intercept DQS [level:ind])				1.15e-33	1.58e-31		2.65e-32
Var(Random intercept EPS [level:ind])			2.06e-34		2.40e-34	5.91e-37	
Var(e.EPS)	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Var(e.DQS)	132.58	132.52	149.00	149.00	149.00	132.60	148.99

Notes. Constants and error covariances are estimated but not reported; remuneration of top 3 executives, and total assets are in natural logarithms; all estimations significant at the 0.05 level unless stated otherwise (†p < 0.10, § if insignificant); a meaningful subset of the models that are estimated is reported.

Table 5.6: Generalized SEM (random slope)

	16	**17**	**18**	**19**	**20**	**21**	**22**
EPS ←							
DQS	0.002§	0.002§	0.003§	0.003§	0.002§	0.003†	0.002§
EPS$_{-1}$	0.79	0.79	0.79	0.79	0.79	0.79	0.79
Total assets	0.01§	0.01§	0.00§	0.00§	0.00§	0.00§	0.01§
State ratio	0.16	0.16	0.17	0.17	0.17	0.17	0.16
Foreign exchange listing	-0.00§	-0.00§	-0.01§	-0.01§	-0.01§	-0.02§	-0.01§
Beta	-0.17	-0.17	-0.17	-0.17	-0.17	-0.17	-0.17
Ownership concentration (Top 10)	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§	-0.00§
Remuneration of top 3 executives	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Random slope EPS#foreignex	1						
DQS ←							
EPS	-2.36§	-2.64§	-2.37§	-3.13§	-2.36§	-3.88§	-2.36§
EPS$_{-1}$	0.61§	0.85§	0.49§	1.12§	0.59§	1.50§	0.61§
EPS$_{-2}$	-0.48§	-0.45§	-0.42§	-0.53§	-0.48§	-0.39§	-0.48§
EPS$_{-3}$	1.25	1.25	1.27§	1.17†	1.24	1.19§	1.25
Total assets	0.99	0.97	1.08§	1.10	1.02	1.28§	0.99
Beta	-4.57§	-4.77	-4.94§	-5.36	-4.65†	-5.02§	-4.57
State ratio	-2.72§	-2.80§	-2.88§	-3.89	-2.78§	-3.55§	-2.72§
Foreign exchange listing	3.12	3.31§	3.75	3.39†	3.22	3.37†	3.12
Ownership concentration (Top 10)	-0.00§	-0.00§	-0.00§	-0.01§	0.00§	-0.00§	-0.00§
Remuneration of top 3 executives	1.52§	1.50	1.48§	1.60	1.53§	1.83§	1.52§
Audit by the Big 4	1.12§	1.44†	1.11§	1.13§	1.11§	1.03§	1.12§
GRI reporting	10.55	10.50	10.20	10.49	10.50	9.58	10.55
Certification	7.18	7.52	7.23	6.74	7.24	6.40†	7.18
Disclosure of work safety	2.78	2.75	2.65	2.42	2.74	2.95†	2.78
Disclosure of deficiencies	-2.65	-2.61	-2.71	-2.55	-2.63	-2.49†	-2.65
Number of independent directors	0.11§	0.05§	0.09§	-0.02§	0.11§	-0.19§	0.11§
Random slope DQS#foreignex		1					
Random slope DQS#auditbig			1				
Random slope DQS#GRI				1			
Random slope DQS#certification					1		
Random slope DQS#worksafety						1	
Random slope DQS#deficiency							1
Var(Random slope EPS#foreignex)	2.91e-35						
Var(Random slope DQS#foreignex)		38.50					
Var(Random slope DQS#auditbig4)			14.68				
Var(Random slopeDQS#GRI)				37.24			
Var(Random slope DQS#certification)					9.16		
Var(Random slope DQS#worksafety)						20.65	
Var(Random slopeDQS#deficiency)							3.36e-32
Var(Random intercept DQS [level:id])							
Var(e.EPS)	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Var(e.DQS)	149.00	147.81	146.14	142.14	148.63	134.32	149.00

Notes. Constants and error covariances are estimated but not reported; remuneration of top 3 executives, and total assets are in natural logarithms; all estimations significant at the 0.05 level unless stated otherwise (†p < 0.10, § if insignificant); only a subsample of models (that converged) reported; only firm level estimations are reported; industry level estimations never account for large variations in the data, hence not reported.

Next, we move on to the random slopes. *Table 5.6* presents our results. This time we try different combinations of random slopes. Estimated variances suggest that it might make sense to include random slopes at the company level only (we do not share estimations at the industry level for simplicity) and for variables foreign exchange listing, audit for big 4, GRI, certification, and work safety in the second equation. For the DQS equation, these results indicate that at the company level, there are considerable differences among companies in terms of their CSR performances but there is not too much industrial variance.

Table 5.7: Postestimation (final models)

	9	23	24		25		
AIC	21606.68	21607.02	21598.83		21597.65		
BIC	21780.02	21786.13	21783.72		21788.32		
LR Test							
LR χ^2	41.31	1.67	10.19	11.86	3.18	13.37	15.03
p-value	0.000	0.197	0.001	0.003	0.075	0.001	0.002
				(9)	**(24)**	**(23)**	**(9)**

Notes. Model 9 is tested against baseline Model 8.

Following random intercept and slope estimations, we build on *Model 9* and try to estimate it with the slopes which account for the most variation in our data. Accordingly, we come up with final models 23, 24, and 25. *Table 5.7* presents goodness of fit statistics for the most reliable models stemming from our findings presented through tables 5.4-6.

Model 23 adds a random slope for foreign exchange listing at the company level in the DQS equation. Goodness of fit statistics suggests it is not really superior to *Model 9*. However, *Model 24*, which builds on top of 23 with the addition of a random slope for GRI, is both superior to 23 and 9. Similarly, *Model 25* builds on top of *Model 24* by adding a random slope for work safety at the company level in the DQS equation. However, it does not seem to be superior to *Model 24*.

Estimation beyond *Model 25* was not possible due to complexity level of the model and convergence issues associated with the GSEM methodology. However, we still accounted for the slopes with largest variations and *Model 25* proved not to be an improvement to *Model 24* anyway.

Table 5.8: Generalized SEM (Both random intercept and slope incl.)

	23	**24***	**25**
EPS ←			
DQS	0.004	0.004	0.004
EPS_{-1}	0.79	0.79	0.79
Total assets	0.00§	0.00§	0.00§
State ratio	0.17	0.17	0.17
Foreign exchange listing	-0.02§	-0.02§	-0.02§
Beta	-0.16	-0.17	-0.16
Ownership concentration (Top 10)	-0.00§	-0.00§	-0.00§
Remuneration of top 3 executives	0.10	0.10	0.10
DQS ←			
EPS	-2.39§	-2.07§	-2.25§
EPS_{-1}	0.11§	-0.11§	0.08§
EPS_{-2}	-0.31§	-0.40§	-0.43§
EPS_{-3}	1.23	1.18†	1.16†
Total assets	1.26	1.29	1.30
Beta	-4.86	-5.11§	-5.10§
State ratio	-4.04†	-4.54§	-4.46§
Foreign exchange listing	3.25§	3.57†	3.61†
Ownership concentration (Top 10)	-0.00§	-0.00§	-0.00§
Remuneration of top 3 executives	1.77	1.68§	1.68§
Audit by the Big 4	1.14§	1.04§	1.01§
GRI reporting	9.71	9.84	9.73
Certification	6.62	6.21	6.14
Disclosure of work safety	2.32	2.20	2.46
Disclosure of deficiencies	-2.45	-2.43	-2.44
Number of independent directors	-0.10§	-0.14§	-0.19§
Random slope DQS#foreignex	1 (cons.)	1 (cons.)	1 (cons.)
Random slope DQS#auditbig			
Random slope DQS#GRI		1 (cons.)	1 (cons.)
Random slope DQS#certification			
Random slope DQS#worksafety			1 (cons.)
Random slope DQS#deficiency			
Random intercept DQS [level:id])	1 (cons.)	1 (cons.)	1 (cons.)
Var(Random slope EPS#foreignex)			
Var(Random slope DQS#foreignex)	22.52	7.69	5.52
Var(Random slope DQS#auditbig4)			
Var(Random slopeDQS#GRI)		27.16	24.65
Var(Random slope DQS#certification)			
Var(Random slope DQS#worksafety)			9.67
Var(Random slopeDQS#deficiency)			
Var(Random intercept DQS [level:id])	16.11	12.02	5.82
Var(e.EPS)	0.20	0.20	0.20
Var(e.DQS)	132.78	131.76	130.85

Notes. Constants and error covariances are estimated but not reported; remuneration of top 3 executives, and total assets are in natural logarithms; all estimations significant at the 0.05 level unless stated otherwise (†p < 0.10, § if insignificant); only a subsample of models (that converged) reported; only firm level estimations are reported; industry level estimations never account for large variations in the data, hence not reported.

Finally, *Table 5.8* presents the estimation results for the most robust models. Estimation results are comparable and we find support for our first hypothesis. Our second hypothesis finds weaker support.

In all three models, disclosure quality score, even though small, has a significant positive impact on financial performance. In the reverse direction, current financial performance does not seem to play a significant role on disclosure quality. In *Model 23*, third lag of EPS has a significant positive impact on disclosure quality, whereas in models 24 and 25 this positive impact is only significant at the 0.1 level.

Other results suggest that past financial performance, state ratio, and executive remuneration have a significant positive impact on financial performance. Expectedly, beta has a significant negative impact but surprisingly, total assets and ownership concentration seem to be insignificant. Furthermore, for disclosure quality, the impact of size, adoption of GRI, certification, and work safety are significant and positive. Beta is negative and significant only in *Model 23*. State ratio is negative and significant at the 0.1 level only in *Model 23*. Foreign exchange listing is positive and significant only at the 0.1 level in models 24 and 25. Executive remuneration appears to be positive and significant only in *Model 23*. Most surprisingly, ownership concentration, audit by the big 4, and the number of independent directors are insignificant.

Our results are quite striking and have many implications for the future of CSR disclosure in China. We have shown that even at its infancy, CSR disclosure has the potential to impact financial outcomes. We also found evidence that firms with slack resources have the tendency to invest more in high quality CSR reports.

We are experiencing a shift in markets. More and more investors start caring about nonfinancial metrics. As they increasingly incorporate these metrics into their investment decisions, managers need to adapt their strategies to cope with the pressures coming from multiple stakeholders. Sole compliance with government regulations or trying to fulfill the requirements of certain agencies or indices fall short because in order to reward the company for its efforts, investors and other stakeholders expect companies to work toward their core competencies and align their CSR programs with their business.

The core principles of CSR are not really new in China and have a corresponding interpretation within Chinese culture. Historically, however, Western CSR concepts did not adapt well to the Chinese market because the reasons behind promoted CSR practices were not explained well and the general approach going about it did not match Chinese reality and culture in most cases (Wang and Juslin, 2009). Clearly, there is a gap between the developed world and China as Chinese society has been struggling with illegal labor practices, corporate crime, product safety and pollution (Tian, 2006). If this gap is ignored and same set of Western CSR practices are imposed on Chinese enterprises, CSR might be perceived as a luxury and not accepted. At this point, there is a need to bring in the harmony concept into the CSR practices (Wang and Juslin, 2009).

As we have illustrated in the literature review section, there are studies on CSR in China but many have been based on Western-style CSR concepts and analyzed according to Western values (Wang and Juslin, 2009). We depart from a universal theoretical underpinning but also recognize distinct features of Chinese business culture as our data stems from local databases and research groups.

Furthermore, the special need for empirical research on CSR disclosure quality in the context of developing countries has been highlighted in the literature (Belal et al., 2013). The present study fills this gap in the literature as well. We examine existing CSR disclosure and its determinants in China and look directly whether CSR disclosure affect firm outcomes. In order to improve the quality of CSR disclosure, this is the first step to take. Disclosure studies usually focus on a narrow range of factors and focus on the quantity rather than quality (Ali et al., 2017) and this makes our contribution quite distinct.

Even though we focus on China, in promoting CSR, other governments also play an important role around the globe and regulatory institutions increasingly pressure companies into forming sound CSR strategies (European Commission, 2014). Although China has distinctive features, we believe our results can be extended to other countries as well.

The most powerful inference of causality can be made only in the presence of longitudinal data (Kelloway, 1995). In our study, our time frame is quite short with large gaps. In the context of our research, lags play an important role since investment into CSR/reporting practices may not affect EPS immediately, and high EPS do not lead to high reporting quality immediately. We have been able to do this in the DQS equation but not in the EPS equation. More observations in the CSR disclosure quality score would enable us to test for the effects of its lags on the current financial performance as well. We were not able to do that since the sample size we were left with was not statistically sufficient do such a comprehensive statistical analysis.

As well as longitudinal data, we are in need of future studies to capture the wide range of differences among CSR reports and develop a more comprehensive and multidimensional measure of disclosure quality. Furthermore, it would make sense to use large global data sets to investigate inter-regional and intra-regional differences regarding the determinants of disclosure. Along with macro-level analyses, we are in need of micro-level analyses, which focus on organizations and individuals, where we tackle how organizational culture and identity of the firm or the underlying psychological processes and managerial characteristics influence CSR disclosure. Connecting these different levels of analyses is the likely future challenge that awaits researchers (Ali et al., 2017).

5.7 Conclusion

One of the most important aspects of CSR is tracking and reporting progress. There is a broad consensus in the literature that investment in CSR and its proper disclosure play a crucial role in the accumulation of intangible assets and sustaining a competitive advantage (Briones Peñalver et al, 2018; Khan et al, 2018). As intangible assets become an integral part of value creation processes and corporate strategy, stakeholders increasingly focus on the disclosure of non-financial information specifically related to intangible assets. This focus is both regulatory and demand driven (Arvidsson, 2011).

Research in the field of CSR, especially concerning CSR disclosure in China is somewhat lacking. In an attempt to address this gap, this paper takes a resource-based view of the firm and leverage legitimacy, stakeholder and slack resources theories in order to explain how the quality of a CSR report and financial performance are related. By utilizing a generalized structural equation modeling approach, we build a system of simultaneous equations and our major results suggest that even at its infancy, CSR disclosure has the potential to act as a precious intangible corporate resource and impact financial outcomes as it helps companies in gaining a sense of legitimacy in the eyes of their stakeholders. We also find evidence that firms with slack resources have the tendency to invest more in high quality CSR reports.

Until very recent years, the attitude towards CSR has mostly been reactive in China. In the past, government prevented NGOs from gaining footing through policies that prohibit them from founding regional offices or raising funds. If there existed an NGO working in a certain area, government would not allow any other NGO to be established to function in this given area. Furthermore, if the given area raised concerns about national security issues, then non-state groups were strictly excluded from discussions. Only exception was environmental NGOs as the government was strictly committed to stringent environmental standards. Due to the limited role that the Chinese civil society played in addressing especially societal issues, most firms only tried to comply with government's legislation mostly in the environmental area and this behavior led to the solidification of 'green-washing' image in the minds of people when they see CSR initiatives and activities (Tan-Mullins and Hofman, 2014).

Nevertheless, there are exciting and promising developments too. Even though the Chinese government is the main change agent in shaping the CSR policy, labor organizations are gaining prominence and suppliers change their mindset towards a more intrinsic and substantive CSR. Hofman et al. (2014) illustrate how CSR practices open up channels through which workers can voice their opinions and affect managerial decision-making processes in the Chinese context. Though slow, in China, we are observing a shift from the traditional state-centric management approach to a more collaborative, multi-stakeholder governance system.

It is yet to be seen whether CSR agenda in China will truly bring structural change or merely exist for compliance and image. Undeniably, the Chinese government is the force behind corporate social responsibility initiatives. The motivations of Chinese companies in launching these initiatives are not so clear but due to the push from the regulatory authorities and public monitoring, CSR has now become one of the central concerns in conducting business in China. Major challenges facing Chinese companies are transparency and accountability (Tan-Mullins and Hofman, 2014). As in the case of China, when the institutional framework is lacking and there is not much public pressure for CSR disclosure, CSR becomes even more relevant to promote human development and understanding determinants of CSR disclosure in developing countries is vital for policy making. However, the current trend of mandatory reporting initiated by governments might not automatically lead to an improvement in CSR reporting (Iannou and Serafeim, 2014). There has to be strong intrinsic motivations for companies in line with local culture that are relevant to the local business context to engage in quality CSR disclosure (Ali et al., 2017). We show that even with lacking institutions and public pressure, CSR disclosure has the potential to grow and develop for the benefit of business in China. It is time to take the next step and build a future, where business adapts and evolves to meet the expectations of its stakeholders and face challenges of the world that we live in today.

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Chapter 6

Conclusion

Along with the benefits they bring, digitalization and increased connectedness introduces many challenges for business. Industrious thinking of immense commercial activity and mass labor forces is coming to an end. Recent technological developments have the potential to make highly capitalized, centralized factories obsolete (Aksin-Sivrikaya and Bhattacharya, 2017; Rifkin, 2011). Amid intense global competition and economic slowdown, firms need to adopt business strategies that will differentiate them in the market place and facilitate maintaining a superior competitive position with respect to their rivals (Lee and Kwon, 2017). Towards achieving this goal, getting a grasp of key intangible corporate assets that influence organizational performance is vital and can guide both scholars and practitioners understand how these assets help ensure short-term profitability and long-term survival of companies.

Intangible assets are inherently rooted in a complex web of human and technological layers, which makes them key in sustaining competitive advantage due to this non-transferable and inimitable nature. Usually intangible assets are attributed to brand, knowledge, culture, employee relations, patents, and copyrights (Manikas et al., 2019). They help companies overcome nationalistic barriers, facilitate globalization, and build local advantage. Especially through corporate citizenship activities, global companies gain legitimacy, reputational capital, commitment, loyalty, and competitive advantage (Gardberg and Fombrun, 2006). These intangible assets become safety nets in times of crisis and protect companies against downside risk (Fombrun et al., 2000).

In this work of intangible assets, our main focus has been reputation. A good corporate reputation is identified as the company's single most important asset in the literature (Gibson et al., 2006). Strategic benefits of a good reputation can be listed as lowered firm costs (Fombrun, 1996; Deephouse, 2000); the firms' ability to charge premium prices (Fombrun and Shanley, 1990; Fombrun, 1996; Deephouse, 2000; Rindova, et al., 2005); the firms' capacity to attract talent (Fombrun, 1996; Turban and Greening, 1997), investors (Srivastava, et al., 1997), and customers (Fombrun, 1996); increased profitability (Roberts and Dowling, 2002); and deterring competitors by creating entry barriers (Milgrom and Roberts, 1982;

Fombrun, 1996; Deephouse, 2000). Moreover, stakeholders are more likely to engage in contracts with highly reputed firms (Deephouse, 2000; Rhee and Haunschild, 2006).

We take a resource-based view (RBV) of the firm and our testable hypotheses are derived from the literature mainly in reputation, leadership, stakeholder theory, legitimacy theory, and signaling theory. In our analyses, we adopt a structural equation modeling approach and alternatively a generalized structural equation modeling approach when applicable. Our work and results have been presented in four complementary chapters in this thesis. The studies in the first three chapters after the Introduction focus on reputational perceptions in Germany, based on a series of surveys conducted by Manager Magazin, while the study in the following chapter focuses on CSR reporting quality and its consequences in China through the use of "Gold Bee Corporate Responsibility Assessment System", which has been developed by the CSR Reporting Research Group at the WTO Guide CSR Development Center.

Our major results are quite striking and underline important trends in reputation. The results of our first study, presented in the second chapter, highlight the pivotal role of cultural reputation. Unlike previous studies that mostly concentrate on the US, in Germany, financial performance does not seem to be the main driver of corporate reputation regardless of whether we look at separate industries or the whole sample. In the European context, financial performance is undeniably a significant factor, but non-financial factors are more important in forming reputations and we predict that these soft factors will become even more important in the future. Our results specifically indicate that there are reputational benefits to be reaped through creating a better working environment for employees and launching sustainability initiatives. Our results further demonstrate that companies in certain industries, where stakeholder trust is hindered, have larger payoffs to be enjoyed from sustainability initiatives and human capital investments. Moreover, in markets where competition is high and corporate capabilities are comparable, cultural reputation might help companies gain a competitive edge in the market.

Our second study focuses on CEO reputation. People think of CEOs as "saviors" and many believe they are extraordinary individuals. However, in leadership literature, we struggle to identify the characteristics that make great leaders. Traditionally, firms have been trying to replicate "best practices" but we need a more scientific and tailored approach to leadership. Our results put emphasis on the necessity of finding the right balance between traditional task-oriented approaches to leadership and relation-oriented leadership skills. CEOs need to be skilled strategists, it is a must, but our analysis reveals a shift in stakeholders' mindsets, where relation-oriented leadership skills are coming to focus and exceeding task-oriented skills in importance. A company's leadership controls all aspects of operations, through all levels in constant contact with employees and other stakeholders. Therefore, it is not really surprising that our results conclude that interpersonal skills play the largest part in forming good executive reputations. Most notably leaders need to be credible, effective communicators to both internal and external constituencies, serve as a role model who inspire and motivate their subordinates, and effectively engage with communities. We further find that reputed leaders also improve reputations of their companies.

After we establish how multiple reputations are formed, the aim of our third study, presented in the fourth chapter, is to explore the nature of the relationship between CEO reputation, corporate reputation, profitability, and market value. Here, we argue that reputation is a valuable intangible corporate resource and it has the potential to drive profitability and boost market value. Results of our empirical analysis suggest that prior CEO and corporate reputations are two major contributors in forming current corporate reputations and when controlled for other potentially influential variables, a favorable corporate reputation significantly improves profitability of firms. Additionally, we find that, whereas prior corporate reputation makes both direct and indirect positive contributions to market value, current corporate reputation and prior CEO reputation have an indirect but significant and positive impact on market value. Our results further suggest that these reputations not only simultaneously affect firm outcomes but also affect each other.

Finally, in our last study, we make an attempt to comprehend how the quality of CSR disclosure and financial performance are related in a Chinese context. There is a broad consensus in the literature that investment in CSR and its proper disclosure play a crucial role in the accumulation of intangible assets and sustaining a competitive advantage (Briones Peñalver et al, 2018; Khan et al, 2018). As intangible assets become more vital in value creation processes and corporate strategy, there is an increasing focus on the disclosure of non-financial information specifically related to intangible assets. This focus is both regulatory and demand driven (Arvidsson, 2011). In order to understand whether there are tangible benefits to quality CSR reports, we build a system of simultaneous equations as we suspect that the quality of CSR reports may also be dependent on financial performance. Our main estimation results indicate that the increased CSR disclosure quality leads to an improved financial performance. In addition, we find that favorable past financial performance tends to have a positive impact on the CSR disclosure quality.

This thesis has many implications for research and practice. First and foremost, it complements existing literature on key intangible corporate assets and confirms the significance of these assets in maintaining a sustainable competitive position. Within the context of stakeholder theory, signaling theory and legitimacy theory, our work contributes to the growing work on CEO and corporate reputation literature by illustrating how these reputations are formed and affect each other. Our research has also implications for the resource-based view of the firm. We illustrate that besides corporate reputation, CEO reputation is an intangible corporate asset for value creation and should be an integral part of future reputation studies. We show the direct link between corporate reputation and profitability as well as the direct link between market value and prior corporate reputation. Moreover, we provide evidence for the significant indirect impact of favorable CEO reputation on enhancing profitability and market value. With this result we add to the extant leadership literature and specifically to the upper echelon theory by showing that firms are indeed reflections of their leaders, which is the major proposition of the upper echelon theory (Hambrick and Mason, 1984). We further illustrate that as CEO reputation significantly contributes to corporate reputation, firms also reflect on their leaders. Moreover, we add to the signaling literature by showing how signaling processes could function in a reputational context. We provide empirical evidence that reputations of highly reputed leaders act as signals of their competence in the market and, as a result, stakeholders have the tendency to perceive respective growth prospects of their firms in a more positive light (Love et al., 2017). Last but not least, we further show that even at its infancy, CSR disclosure has the potential to impact financial outcomes in an emerging country context. We also find supporting evidence for slack resources, where we demonstrate that firms with slack resources have the tendency to invest more in high quality CSR reports.

This thesis has also practical implications for managers. We show that there is a business case for active management of both corporate and personal reputations by demonstrating the link between multiple reputations and firm outcomes. Reputation can be operationalized as a tool to protect and defend competitive positions and also act as a deterrent for potential competitors who consider entry to markets in question. Likewise, CEO reputation can be operationalized as a signaling tool for market participants, which works as a medium to mitigate negative news in times of crises and help stakeholders perceive the company in a positive light. We find that stakeholders value relation-oriented skills more than task-oriented skills in a leader. Therefore, we propose that firms invest in leadership programs that concentrate more on obtaining relation-oriented skills so that CEOs communicate their companies' visions in a more credible way, better engage with communities around them, as a consequence become a role model in the eyes of stakeholders, and act as a source of inspiration and motivation for their employees by being excellent team players.

Our work has also implications for reporting practices. We are experiencing a shift in markets. More and more investors start caring about nonfinancial metrics. As they increasingly incorporate these metrics into their investment decisions, managers need to adapt their strategies to cope with the pressures coming from multiple stakeholders. Sole compliance with government regulations or trying to fulfill the requirements of certain agencies or indices fall short, because in order to track progress and reward companies for their efforts, investors and other stakeholders expect companies to align their CSR programs with their core competencies and properly report their CSR performance.

As stakeholders become more and more vocal through digitalization, information asymmetries decrease and stakeholders such as employees, customers, and society at large become more instrumental for companies to create social and business value. The new era will be marked by collaborative behavior, social networks, and professional and technical workforce (Aksin-Sivrikaya and Bhattacharya, 2017). Our results put emphasis on the necessity of escaping from the traditional profitability driven business models and investing in corporate culture. Our findings show that investing in intangible assets that help companies enhance their knowledge base, improve productivity, bring down communication barriers, and promote CSR practices, deeply resonate with multiple stakeholder groups.

In an ever-changing business environment, where customer expectations are on the rise, competitive landscape is continuously growing, and technological advances have a considerable influence on the way business is conducted, global markets evolve in a pace never witnessed before and conventional boundaries between industries do not apply. At the age of disruptive innovation, in addition to product proposition, reputation emerges as a precious intangible asset to value creation. We strongly believe that this thesis provides new insights on how reputation is linked to organizational performance and demonstrates that a superior performance can be achieved through active management of multiple reputations. The traditional approach towards management of reputations has generally been exercised with respect to the positions of the competition. However, the business landscape of the 21st century simply does not tolerate reactive approaches to reputation anymore. Firms are required to attain more proactive strategies in order to maintain and improve their competitive positions. It is a matter of survival; only those who evolve and adapt will survive.

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Erklärung zu verwendeten Hilfsmittel

Ich bezeuge durch meine Unterschrift, dass meine Angaben über die bei der Abfassung meiner Dissertation benutzten Hilfsmittel, über die mir zuteil gewordene Hilfe sowie über frühere Begutachtungen meiner Dissertation in jeder Hinsicht der Wahrheit entsprechen.

Berlin, den 11. November 2020,

Sezen Aksin-Sivrikaya